



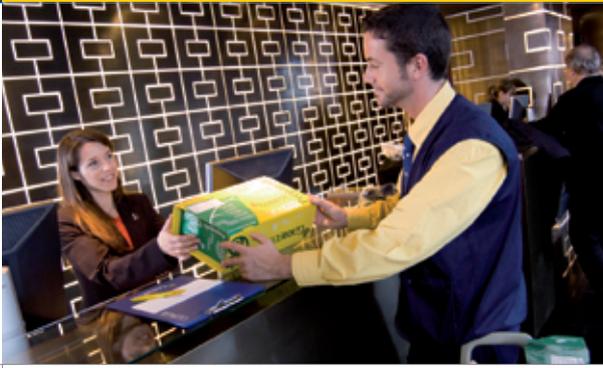
Annual Report 08



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Annual Report 08



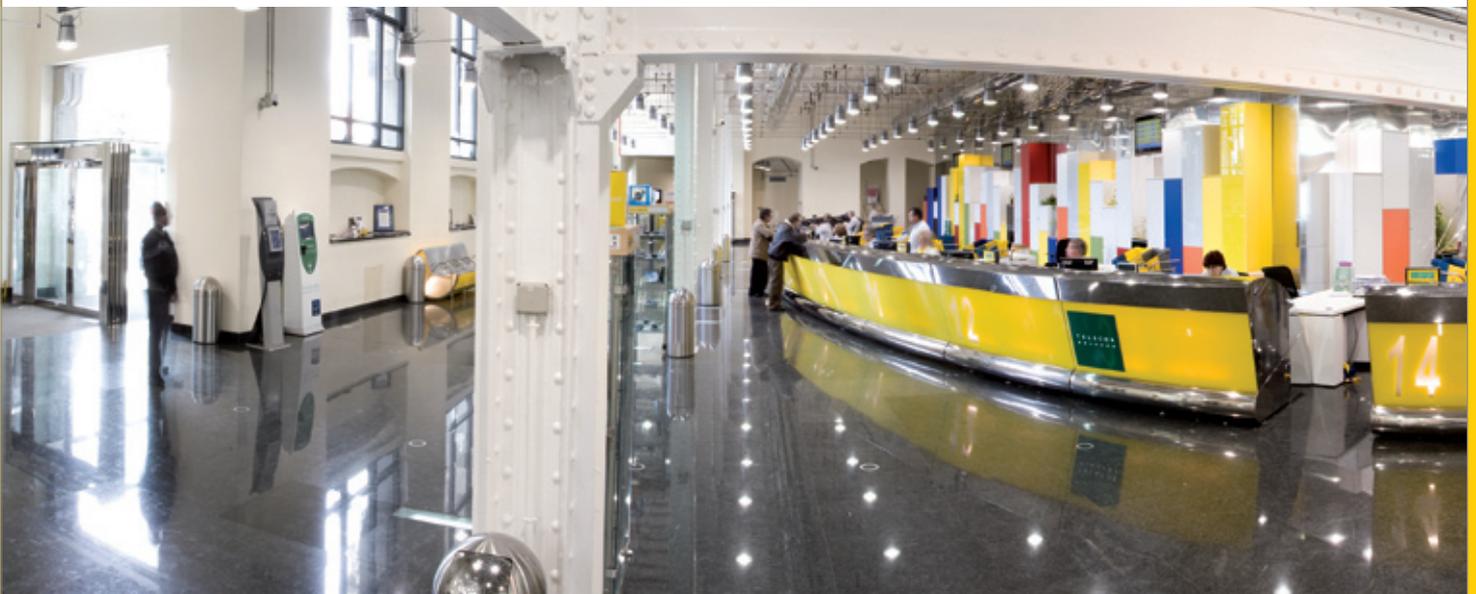
Key data 2008

■ Correos Group

In millions of euros

Net turnover	2,296
Consolidated result before tax	109
Consolidated result of the financial year	79

Employees	67,661
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■ Sociedad Estatal Correos y Telégrafos, S.A.

In millions of euros

Net turnover	2,141
Result before tax	107
Result of the financial year	78
Real (non-financial) investments	238

Employees	65,924
------------------	---------------

In millions

Postal items	5,123
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Vehicle fleet	13,869
Service points	9,926
Post offices	2,250
Rural services	7,676



Correos Group Annual Report 2008

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Letter from the Chairman



I took over as Chairman of Correos at the end of last year with the responsibility of managing one of Spain's largest companies and the commitment to lead its project for the future. It is now my responsibility to present the 2008 results; a year in which goals were reached, but also in which challenges arose.

Last year's results were conditioned by the global economic downturn which affected all sectors of the economy and which, among its other effects, resulted in a decrease in consumption and a reorientation of demand towards lower cost

services. The recession, which worsened more sharply than expected in the second half of the year, inevitably had an impact on postal activity and the profits achieved by the Correos Group.

The decrease in postal volumes seen in 2008 was not solely the result of economy's progression, but also due to increased competition and the substitutive effect of new communication technologies. Although European postal liberalisation will not take force for several years, national and international competitors have been widely present in the Spanish market for several decades. Furthermore, the amount of electronic transactions continues to grow. Presumably, the growing impact of these factors will affect mail volumes in years to come.

In light of this scenario, Correos has been applying measures for some time aimed at increasing its competitiveness, intensifying its customer focus, diversifying its activity and incorporating the latest technological advances into its activities.

To that end, the Company targets its efforts towards increasing the quality of postal services by raising operating efficiency, developing the service points network and the applying innovation to processes. Thus, over recent years delivery times have improved as a result of advances in automated sorting (which reached 87% of basic

Correos has been applying measures aimed at increasing its competitiveness, intensifying its customer focus, diversifying its activity and incorporating the latest technological advances.

line mail), modernisation of distribution centres and the application of new technologies (e.g. radio frequency monitoring).

The Company is also developing new additions to its range of services in order to continuously adapt to its customers' needs and to take advantage of new growth opportunities as they arise in business segments such as parcel delivery, direct marketing and online services. As the current context leads companies to seek more cost-effective, efficient and quicker options, Correos is working to provide them with more flexible solutions that better adapt to their requirements, combining physical and digital means, such as the "*Apartado postal electrónico*" (electronic P.O. Box) and the range of services provided by the online post office.

Furthermore, Correos is working to strengthen existing synergies with subsidiaries, so as to offer customers an integral service and increased profitability. Chronoexpres, which attained a profit of 1 million euros in 2008 thanks to the application of its rationalisation plan, promotes the Group's positioning in the parcel sector. With regards to Correo Híbrido and Correos Telecom, they provide their experience and expertise to meet the demand for increasingly comprehensive technological services.

Correos Group is aware of the importance of combining the undertaking of its activities with its contribution to the society it serves. This conviction has led the Group to incorporate environmental sustainability into its business values as a priority element in the Corporate Social Responsibility plans that it has been applying for many years.

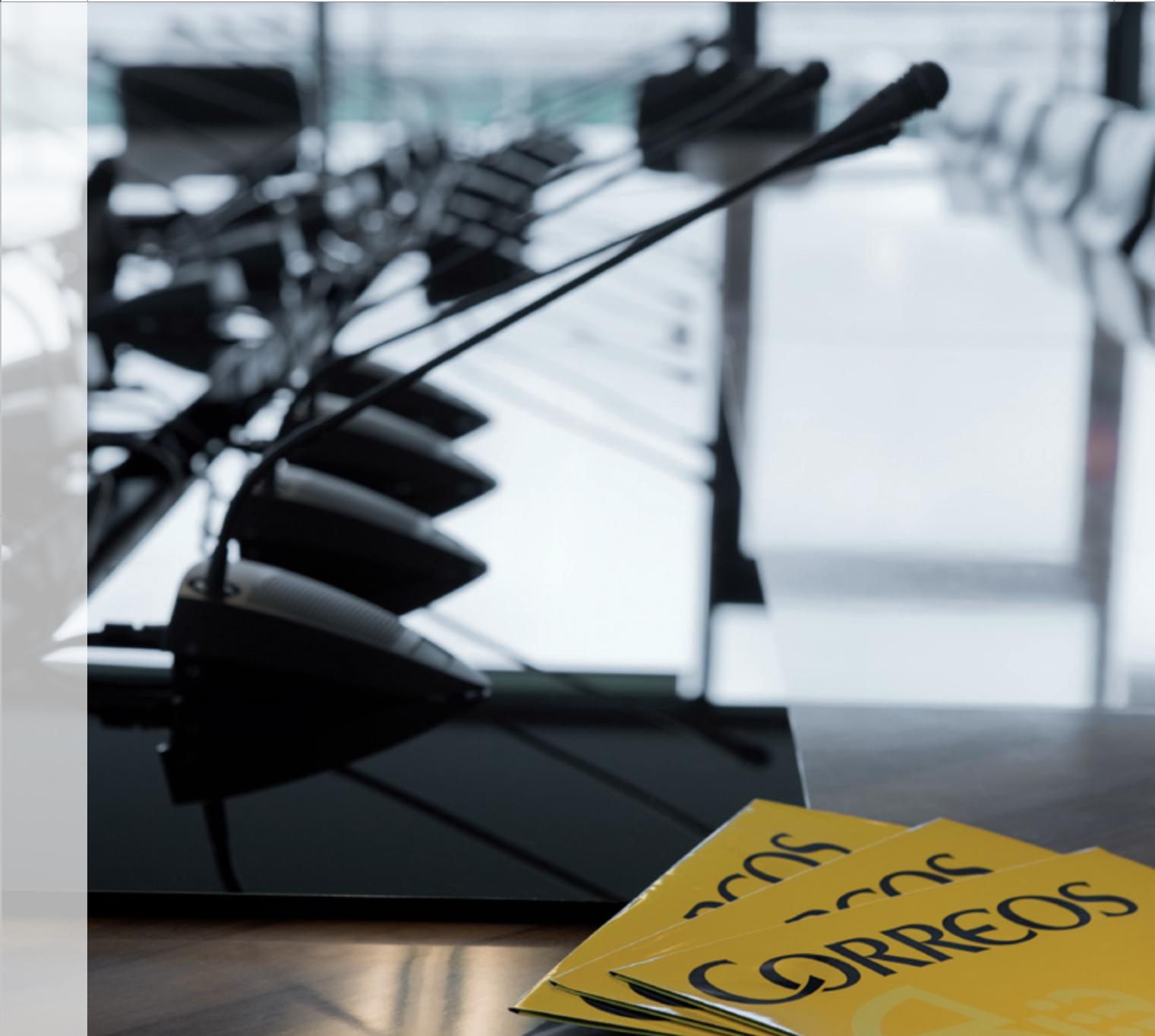
In conclusion, increasing competitiveness, flexibility, innovation, intensifying our customer focus and sustainable and responsible development will provide us a solid basis upon which to meet the transformations and challenges being faced by the sector, to maintain quality employment and consolidate the Group's leadership.

I would like to end this letter by expressing my recognition and thanks to our employees for their contribution to 2008's achievements through their committed work, search for excellence and willingness to adapt. Finally, I would like to invite them to continue supporting our efforts to reach future objectives and consolidate Correos as a solid, modern and efficient organisation.



Sixto Heredia Herrera

Governing Board





■ Chairman

Sixto Heredia Herrera

■ Secretary

Jesús Moreno Vivas

■ Members

Francisco Cadarso González
Diego Chacón Ortiz
José Luis Díez García
Mercedes Díez Sánchez
M.^a Jesús Figa López-Palop
Fernando Iruzun Montoro
Cristina Latorre Sancho
Dionisia Manteca Marcos
Felipe Martínez Martínez
José Alberto Pérez Pérez
Susana Peri Gómez
M.^a Teresa Rodríguez Barahona
Carmen Román Riechmann
Juan Miguel Sánchez García
Alberto Sereno Álvarez
Felipe Sivit Gañán
Justo Zambrana Pineda

31 December 2008

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Organisational chart

The Correos Group organisation is structured into corporate departments, support units and business divisions/units. It also has three subsidiary companies: Chronoexpres, S.A., Correo Híbrido, S.A. and Correos Telecom, S.A.

Responsibility for managing the Parent Company, Sociedad Estatal Correos y Telégrafos, S.A., lies within the Governing Board, the Chairman and the Executive Committee.

The Management Committee has overall responsibility for policymaking, development and

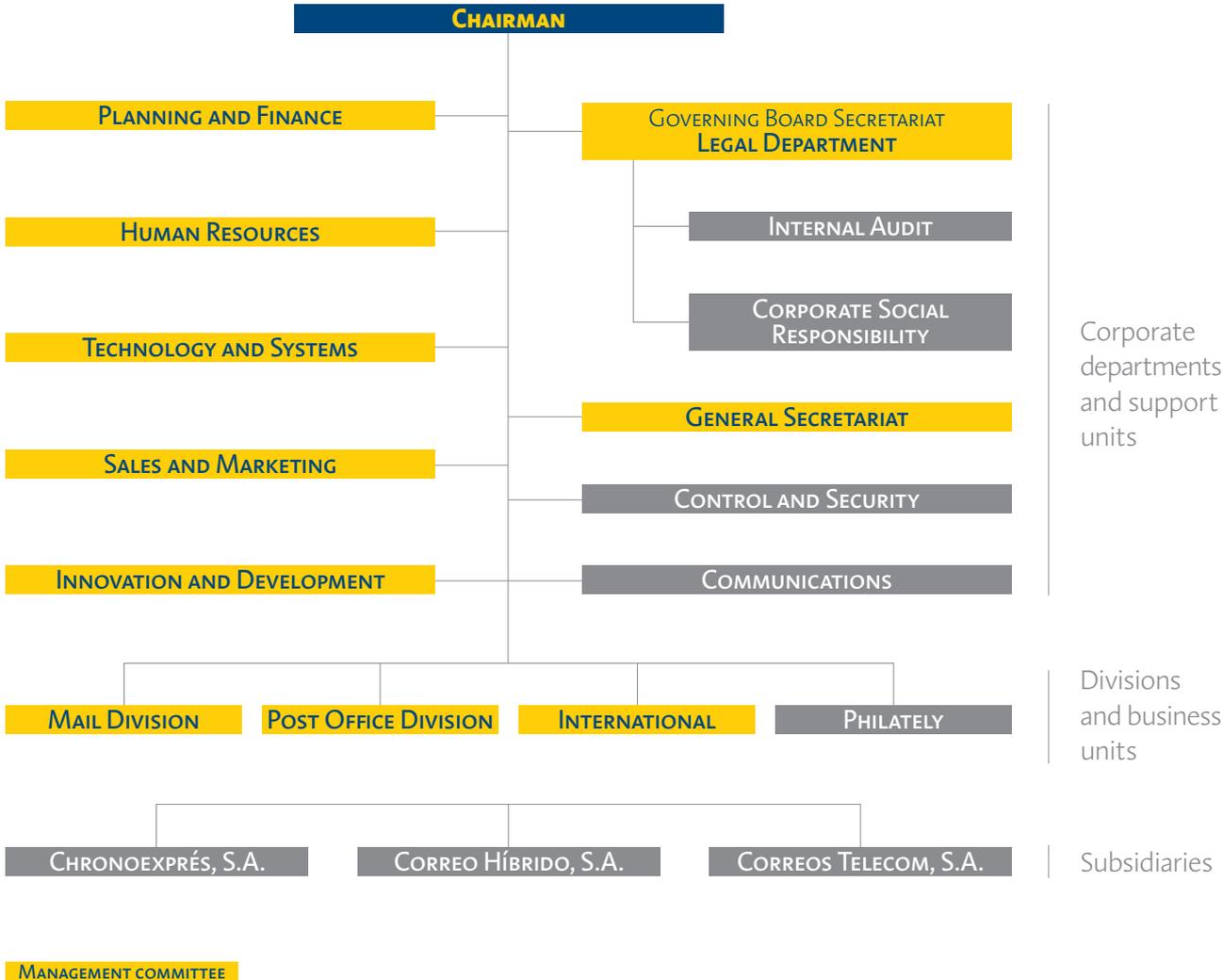
coordination in all matters of particular importance for the Company's business that involve or require the participation of more than one part of the organisation or business area.

The Committee is made up of the Chairman and the directors of the following units: Planning and Finance, Human Resources, Technology and Systems, Sales and Marketing, Innovation and Development, the Legal Department, the Mail Division, the Post Office Division, the International Unit and the General Secretariat.





GOVERNING BOARD



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Milestones

■ Operations

- Opening of the Alicante automated processing centre.
- Automated sorting of basic line mail reached 87%.
- Extension of radio frequency control technology (RFID) to a further 36 logistics facilities.
- Introduction of an automated international parcel processing system at the Barajas centre.
- Renewal of the delivery fleet through the purchase of 1,400 vehicles.

■ Quality

- Increase of nearly 5 points in the delivery quality of D+1 domestic letters, according to the SPEX system.
- “European Excellence 400+” (“Recognised for Excellence 4 Stars”) award for the post office network.

- Certification of the 17 automated processing centres in accordance with the ISO 9001 and 14001 standards.

■ Products and services

- 13.4% growth in BanCorreos customers.
- Launch of “Correogiro”, a new urgent international money order service.

■ Employees

- The proportion of permanent employment reached 78% of the total.
- 25.3% increase in the number of participants in training programmes.
- The online option was selected by 57% of participants in training programmes.
- Collaboration agreement with the Employment and Social Affairs Ministry aimed at increasing awareness of gender violence.



■ Corporate Social Responsibility

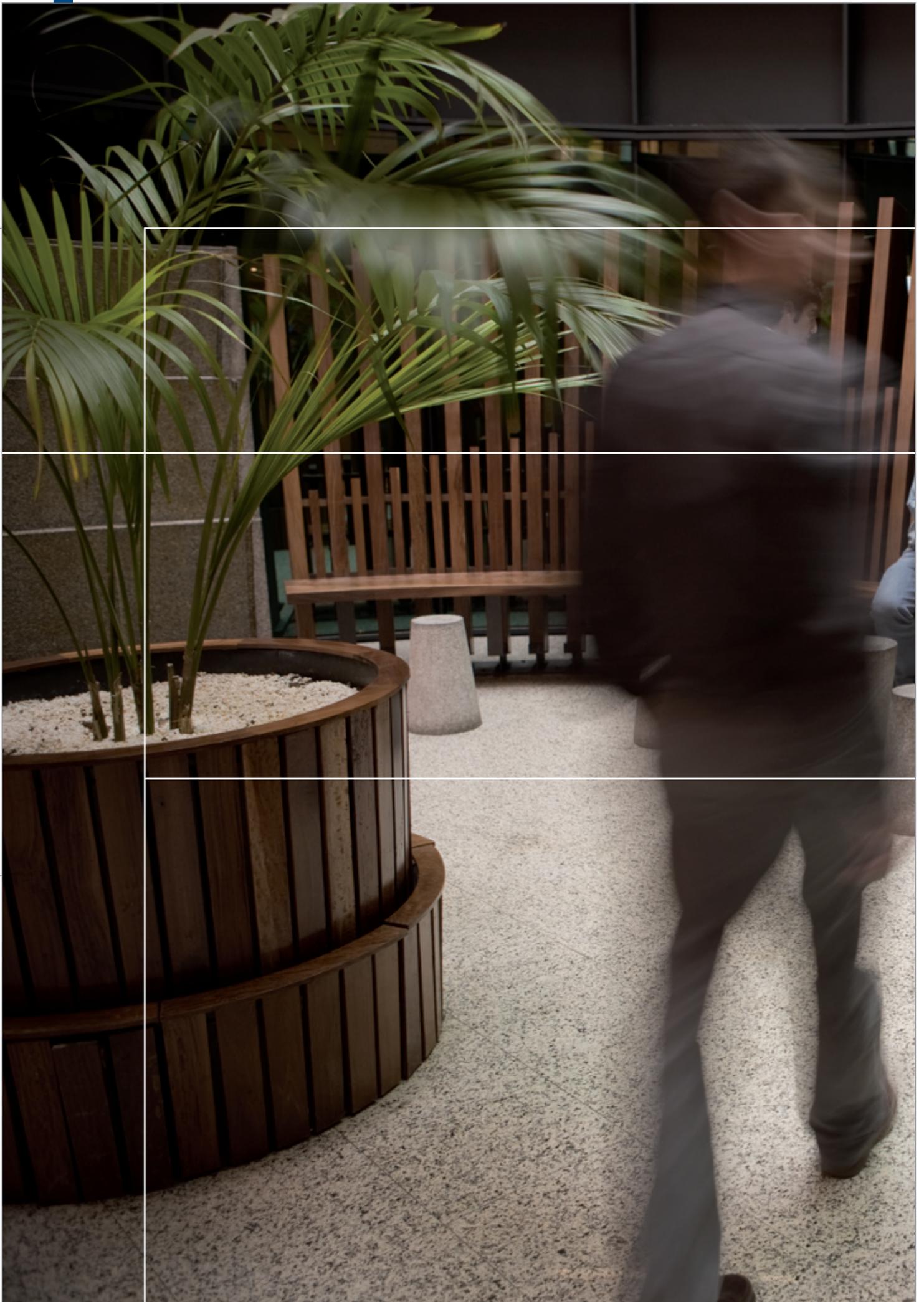
- Creation of the Environment Committee and introduction of environmental sustainability as a corporate value.
- Cooperation in campaigns against drugs (with the Health Ministry) and to support the rights of children (with UNICEF).
- Introduction of electric vans and bicycles for deliveries in urban areas.
- Sponsorship of *Expo Zaragoza 2008*.

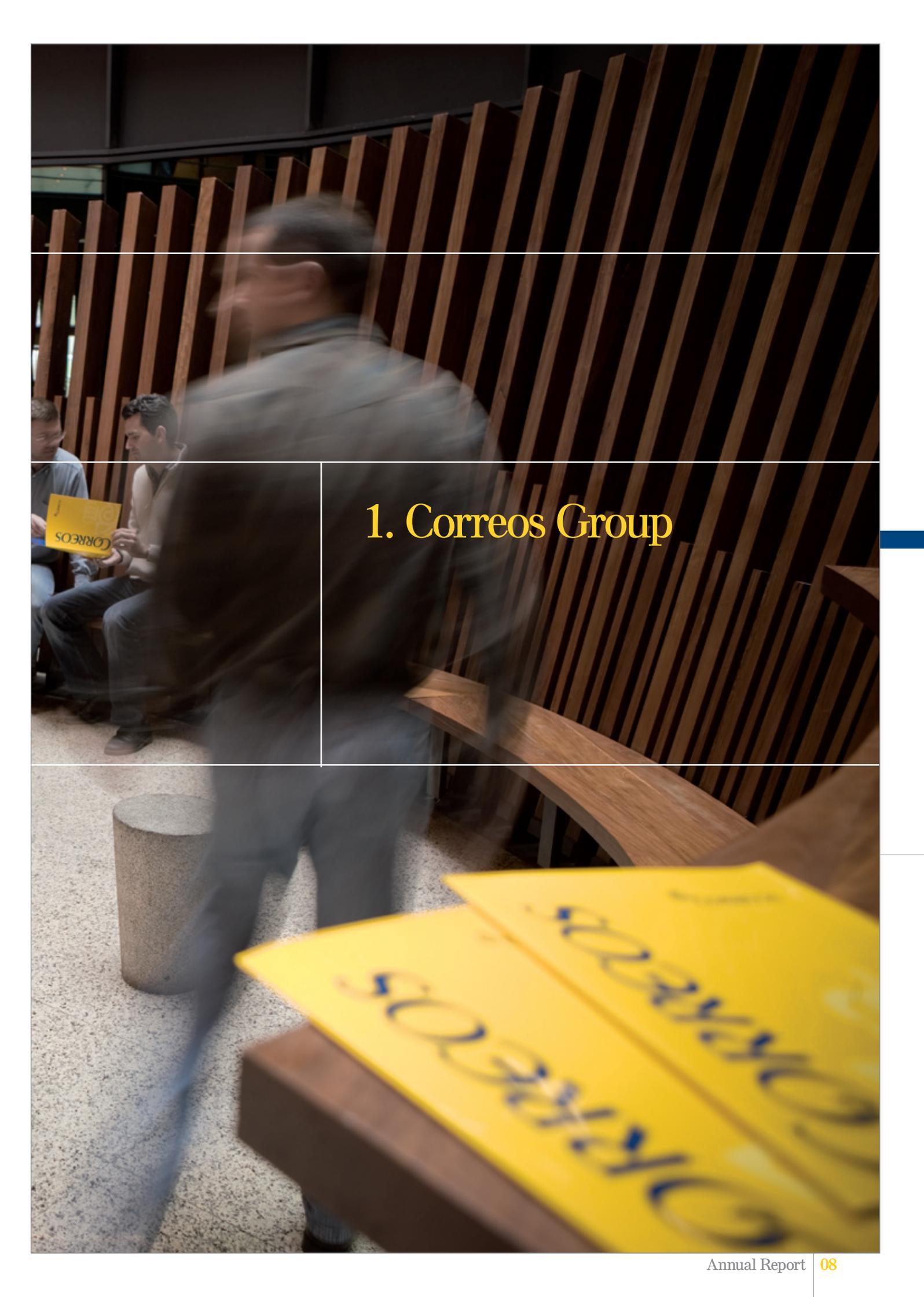
■ Subsidiaries

- Chronoexpres earned a profit before tax of 1 million euros.
- Correo Híbrido set up a new centre in Sant Boi de Llobregat (Barcelona).
- Correos Telecom attracted new customers requiring telecommunications services.

■ Recognitions

- First prize 'World Mail Awards', in the People Management category, for the application of new technologies in training.
- Recognition of the Company's e-learning method as best practice by the consulting firm Gartner.
- Correos was the most positively viewed public service, according to a survey undertaken by *Centro de Investigaciones Sociológicas* (Sociological Research Centre, CIS) entitled "*Opinión pública y política fiscal*" (Public Opinion and Fiscal Policy).
- "Empresa TOP para trabajar 2008" (2008 TOP Company to Work For), according to the international organisation CRF, due to the application of innovation to employees' integral development.
- Prize from the magazine *Computing* in the Mobility category for the Company's project to equip delivery staff with PDA-type portable terminals.
- AUTELSI prize in the category 'innovative project or initiative to improve productivity' for the INTEGRA Project.





1. Correos Group

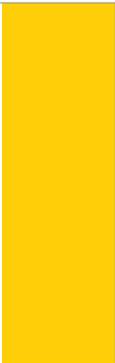


Correos Group is made up of the Parent Company, Sociedad Estatal Correos y Telégrafos, S.A. and its subsidiaries Chronoexpres, S.A., Correo Híbrido, S.A. and Correos Telecom, S.A. It is entirely State-owned.

The four companies operate in the global communications market. The Group's strategy is aimed at obtaining synergies, achieving common business objectives and creating a complete and specialised range of services.

The Parent Company is the core of the Group's activities. It provides the universal postal service and is, at the same time, the reference company in the Spanish market, one of the most highly liberalised in the European Union.

The Group's portfolio is complemented by the urgent document and parcel delivery services provided by Chronoexpres, the corporate mass communications solutions offered by Correo Híbrido and the management of telecommunications networks supplied by Correos Telecom.



The four companies of Correos Group operate in the global communications market.



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■ Environment

The passing of the Directive 2008/6/EC of the European Parliament and of the Council of 20 February 2008 was a landmark in the postal reform process within the European Union, as it set the definitive basis for the complete opening of the sector.

The operators responsible for providing the universal postal service within each of the Member States took a wide range of measures in order to face this new context. Through merger projects, partial privatisation plans, restructuring and cost reduction programmes and diversification initiatives, companies sought to compete more efficiently, compensate for the electronic substitution of traditional mail and to combat a

global economic crisis which has had a significant impact on mail volumes.

In Spain, where more than 60% of the traditional postal market is open to private companies, competition intensified in 2008. European designated operators and global consolidators began or increased their presence in the letter, direct marketing, parcel and retail services segments. To do so, they sealed alliances with national partners, set themselves up in the market or opened their own extraterritorial offices of exchange (ETOE), which are highly specialised in drawing in international flows from issuing countries.

A number of different government bodies held tendering processes for postal services for the first



The passing of the Directive 2008/6/EC was a landmark in the postal reform process within the European Union.

time. Correos participated in these processes with other operators and was awarded the contracts in the majority of cases.

In accordance with recent regulation governing access to the public postal network managed by Correos, the first set of agreements was signed last year with nine private sector companies.

In addition to the sector challenges faced in 2008, we should not forget the international economic situation, which caused significant changes in production and consumption trends, with relevant effects on postal operators' business.

The economic downturn was reflected in Gross Domestic Product (GDP) growth in both the Eurozone and the European Union, which increased by

0.8% and 0.9% respectively, compared with 2.6% and 2.9% the previous year.

Spain's macroeconomic data also showed a slowdown in GDP growth, which fell from the 3.7% registered the previous year, to 1.2% in 2008. That drop was caused by the slowing of domestic demand, which saw all of its components weaken with the exception of public consumption. The contribution of external demand was positive, supported by a sharper decrease in the value of imports than seen with regards to exports.

The progressive deterioration of the economy was also evident in an increase in the unemployment rate. Nevertheless, the continued drop in the price of oil resulted in a decrease in inflationary pressure over the course of the year.





■ Performance

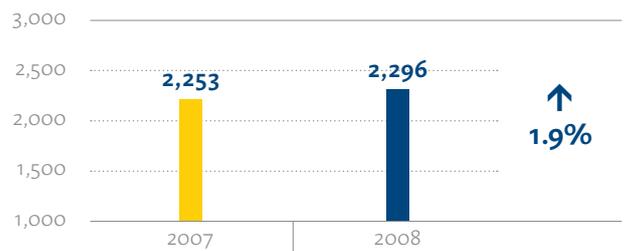
Correos Group reached a total operating revenue of 2.387 billion euros in 2008. Net turnover totalled 2.296 billion euros, an increase of 1.9% over the previous year. Operating expenses stood at 2.304 billion euros.

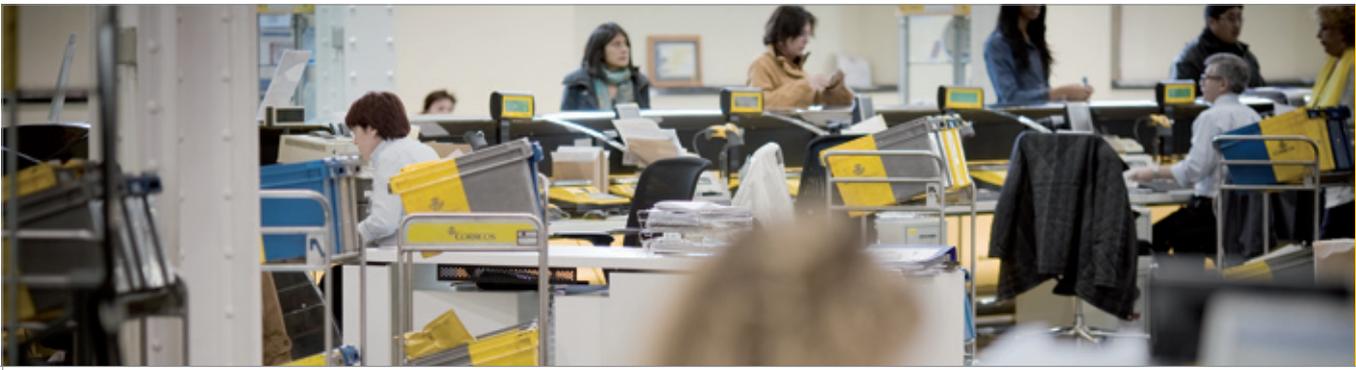
Operating results reached 83.5 million euros. The consolidated result before tax stood at 108.6 million euros, a 27.8% decrease.

The Group obtained a consolidated profit after tax for the financial year of 79.3 million euros, 24.1% less than in 2007.

NET TURNOVER

In millions of euros

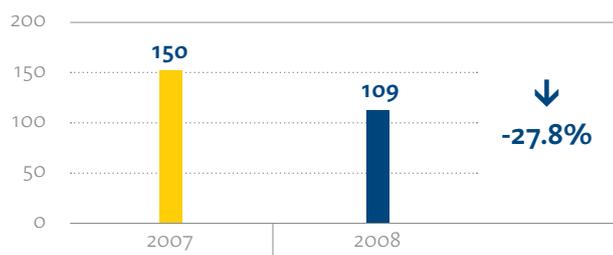




Correos Group reached a consolidated result after tax of 79.3 million euros.

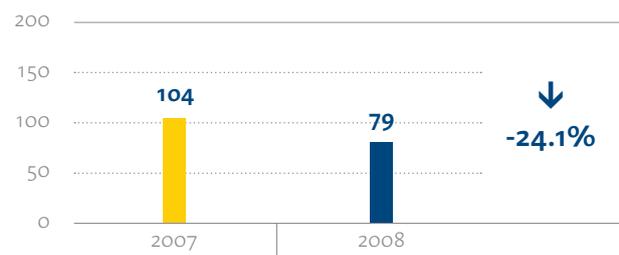
CONSOLIDATED RESULT BEFORE TAX

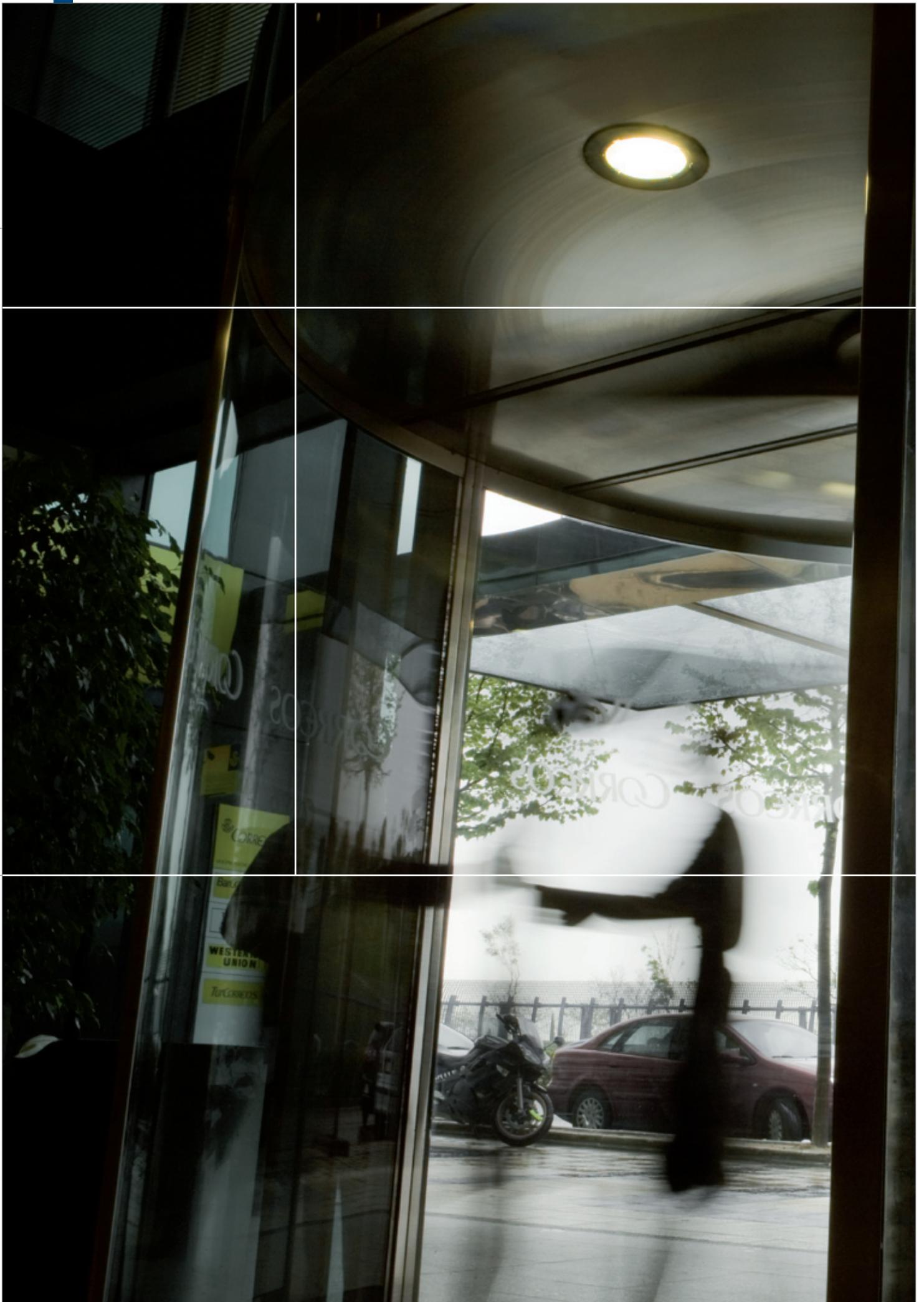
In millions of euros



CONSOLIDATED RESULT AFTER TAX

In millions of euros





2. Sociedad Estatal Correos y Telégrafos, S.A.



Assessment of 2008

The Sociedad Estatal Correos y Telégrafos, S.A. is the operator responsible for providing the universal postal service in Spain, in accordance with certain quality, regularity, accessibility and affordability requirements which ensure all businesses and consumers' rights to postal communication. The Company employs a staff of 65,924 people, has a network of 9,926 service points, 5,163 operating centres and 13,869 vehicles, making it one of the main Spanish companies in terms of geographical coverage and number of employees.

It is also the reference company in the Spanish market in terms of the quality and reliability of its services. The range of services it offers includes all types of physical and electronic communication solutions, in addition to parcel, direct marketing, financial and telecommunications services.

Correos has taken on a commitment to develop its activity in a sustainable and responsible manner. Accordingly, its actions are targeted towards increasing efficiency and excellence, promoting innovation and competitiveness, guaranteeing the human and professional development of its employees and adapting its commercial portfolio to the new needs of private individuals and businesses.





■ Performance

Last year, Correos achieved a total operating revenue of 2.232 billion euros. The net revenue, furthermore, grew by 1.6% to reach 2.141 billion euros.

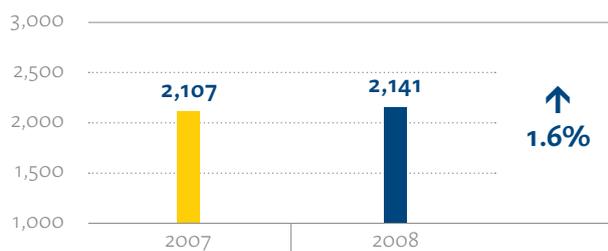
Operating expenses increased to 2.150 billion euros, producing an operating result of 81.3 million euros.

Profit before tax stood at 107.1 million euros, compared with 149.6 million euros the previous year. Profit after tax fell from 103.9 million to 77.9 million euros.



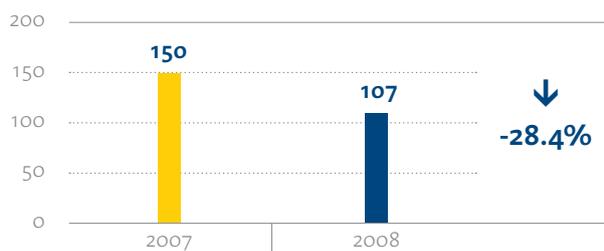
NET TURNOVER

In millions of euros



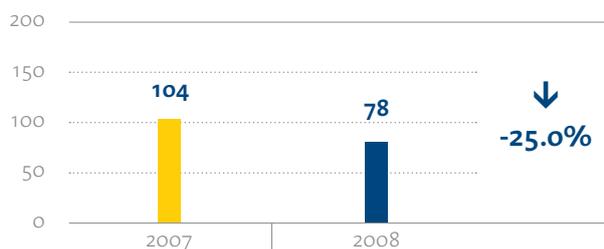
RESULT BEFORE TAX

In millions of euros



RESULT OF THE FINANCIAL YEAR

In millions of euros





Investments

In 2008, the Company invested a total of 238.1 million euros in capital spending, 2.1% more than in 2007. As in previous years, the majority of this investment was in infrastructure, standing at 154.8 million euros.

The amount allocated to new technologies increased relative to total investments, reaching 19.9%, 47.3 million euros, due to increased application of innovative projects affecting the range of services the Company offers, operating processes and business management.

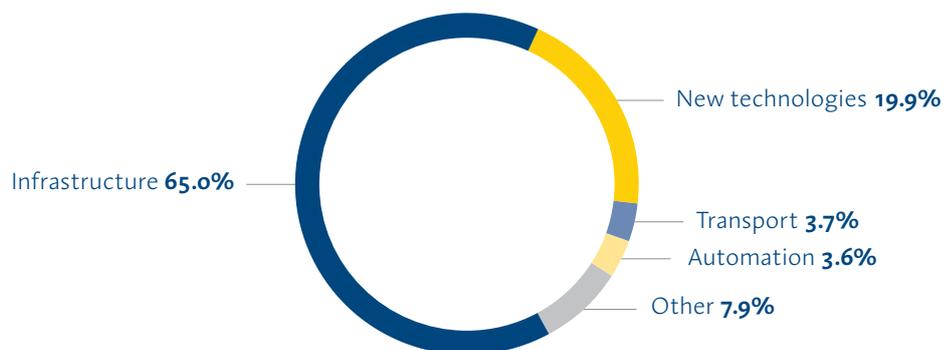
As Correos completes its automation programme, the amount of investment allocated for that purpose will decrease compared with previous years. In 2008 it reached 8.6 million euros.

A further 8.7 million euros, 3.7% of the total, was used to purchase new means of transport. The remaining 18.7 million euros were invested in a range of areas, such as security and furnishings.

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INVESTMENTS



Correos invested a total of 238.1 million euros in capital spending, 2.1% more than in 2007.

■ Activity

Correos admitted 5.123 billion mail items, excluding international inbound mail and election-related mail items. Year-on-year comparisons showed a 5.2% decrease, a trend experienced by the majority of Western postal operators as a result of electronic substitution, increased competition and the economic crisis.

The importance of registered products increased as a share of all postal items managed. Of said registered products, the most noteworthy growth was seen with regards to digital mail, notifications under special agreements, and international urgent mail and priority parcels.

With regards to service categories, the basic line represented 78.5% of all mail items handled, with the economy line accounting for 21.2% and the urgent line the remaining 0.3%.



Postal volumes by product line	2008	Percentage of total
Basic line	4,020.6	78.5%
Economy line	1,084.7	21.2%
Urgent line	17.9	0.3%
Total	5,123.2	100%

In millions

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COLLABORATION IN ELECTORAL PROCESSES

Correos collaborates in the development of electoral processes undertaken in Spain. During said processes, the Company distributes census cards and campaign fliers; it facilitates voters' applications for postal votes and their delivery to polling stations and, finally, collects the copies of the results of each count and delivers them to the respective electoral committees.

During the general election and the election for the Parliament of Andalusia, held in 2008, Correos delivered 33.9 million basic line mail items (census cards), 141.8 million economy line items (campaign fliers) and 4.0 million urgent registered items (electoral documentation and postal votes).

MONEY ORDERS

In 2008, Correos handled 11.2 million money orders, 15.3% less than in 2007. The ordinary category, delivered within Spain, constituted the largest proportion. The total amount processed reached 980.1 million euros.

Money orders	2008
Domestic	10,998.8
Ordinary	10,673.6
Urgent	325.2
International	236.5
Total	11,235.3

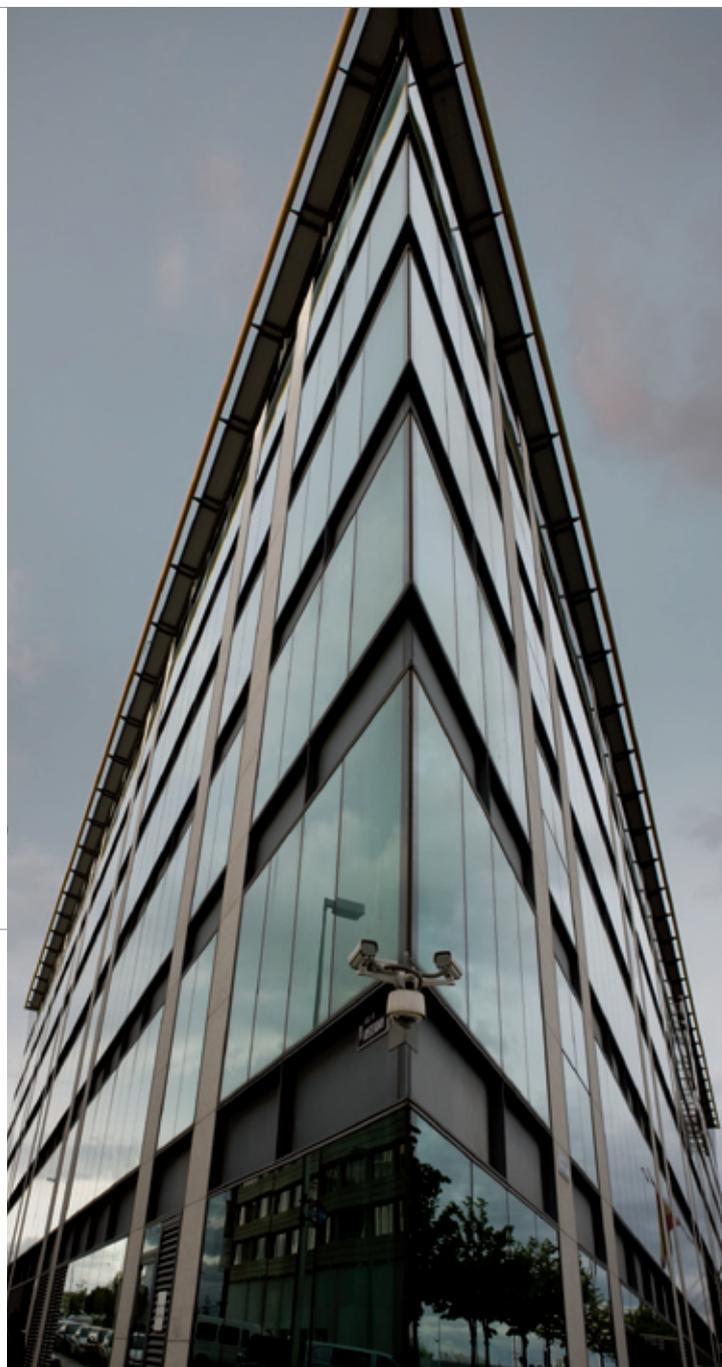
In thousands

TELEGRAPHIC PRODUCTS

Correos admitted 7.6 million telegraphic products, 28.0% higher than the previous year. The service which saw the highest rate of growth, 36.8%, was the bureaufax, due in large part to the considerable demand for the online version.

Telegraphic products	2008
Telegrams	2,940.7
Bureaufax	4,073.1
Fax	608.7
Total	7,622.5

In thousands



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Quality

One of Correos' fundamental aims is to provide maximum quality to customers, both with regards to the universal postal service and all of the Company's other services.

■ Delivery quality

Spanish legislation requires certain delivery time objectives to be met for universal postal service products.

Average delivery times are calculated in accordance with the formula D+n, in which "D" is the deposit or posting date and "n" the number of working days until the delivery to the addressee or another endpoint in the postal process.

In addition to the measurement undertaken by the regulatory body to verify the achievement of the universal postal service objectives, Correos carries out other checks so as to be in a position to apply the necessary quality improvement actions.

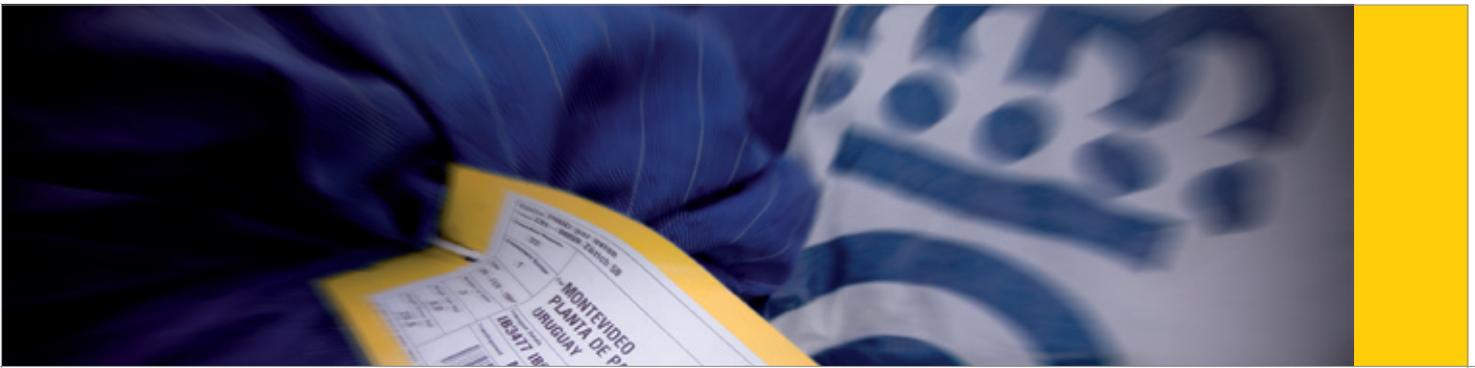
DOMESTIC DELIVERY QUALITY

The Company uses two methods to monitor national delivery times:

- The Internal Audit system. A method used to control mail items from postmarking to the time they are dispatched for delivery. It is based on audits undertaken regularly in different operating centres around the country.

INTERNAL AUDIT: ASSESSED PROCESS

	DEPOSIT	POSTMARKING	DISPATCH FOR DELIVERY	DELIVERY	
		Universal postal service	Delivery time	2007	2008
Internal Audit		Ordinary letter	D+1	80.4%	80.9%
		Registered letter	D+2	88.2%	88.8%
		Ordinary money order	D+3	99.0%	98.9%
		<i>Paquete azul</i> (Parcel)	D+3	82.5%	83.5%



Improvement of delivery times of mail.

This is the longest running of the models used by the Company and, accordingly, the data it provides allows for more wide-ranging historical comparisons to be made.

- The SPEX system. A study carried out with the assistance of an independent company. This system monitors mail items from the time they are deposited until their effective delivery to the addressee, with the aim of ascertaining both end-to-end and intermediate stages of logistic chain quality.

Its results correspond to a greater extent with the customers' perception of delivery quality, as it measures the entire postal process.

SPEX: ASSESSED PROCESS

		DEPOSIT		DELIVERY	
		2007	2008	2007	2008
SPEX	Delivery time				
	D+1	59.2%	64.1%		
	D+3	91.8%	93.8%		

INTERNATIONAL DELIVERY QUALITY

The UNEX model, managed by International Post Corporation (IPC), is employed to measure cross-border mail quality.

In accordance with this system, the D+1 quality performance for inbound mail is calculated from arrival in the exchange office until delivery in Spain, and for outbound mail, from the deposit until the item reaches the exchange office in the destination country.

The D+3 quality of international mail is measured from the time of admission in the country of origin until the final delivery to the addressee.

		2007	2008
UNEX D+1			
Inbound mail		79.9%	81.3%
Outbound mail		77.8%	74.5%
UNEX D+3			
Inbound mail		88.9%	90.4%
Outbound mail		92.4%	93.6%

Customer service channels

The Company provides various communication channels for its customers. The website www.correos.es allows requests and suggestions to be made, opinions to be expressed and offers practical information. Enquiries made through this channel increased nearly 20% last year. In total, 31,105 questions were resolved by e-mail. The customer service helpline 902 197 197, for its part, received 1.9 million calls.

COMPLAINTS AND CLAIMS

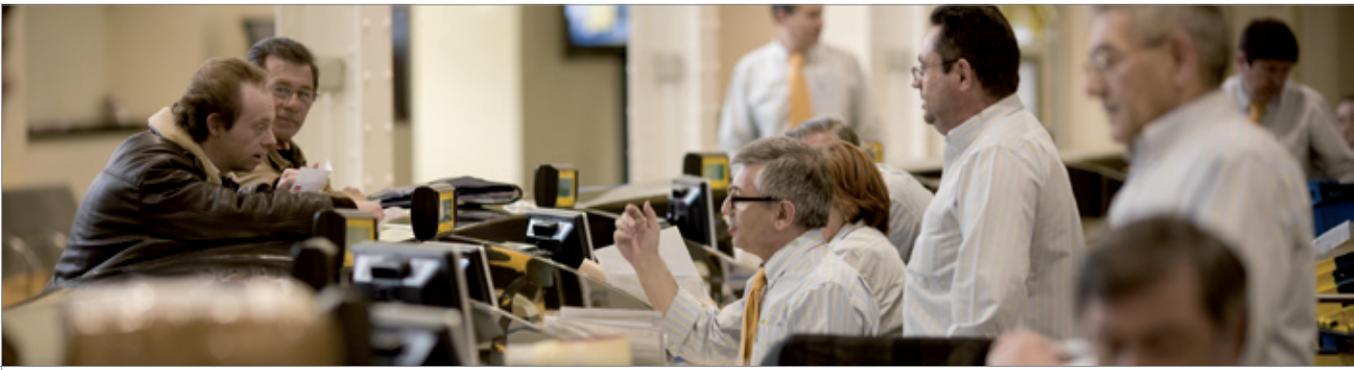
The number of complaints and claims received in 2008 increased by 22.2%. With regards to the postal volumes handled, 44.6 incidents were registered per million mail items.

Domestic claims (relating to products and services subject to compensation for failing to comply with delivery commitments) increased by 30.2%, and complaints by 13.7%.

With the aim of improving the information on and the analysis of the reasons for complaints and claims, a new IT application was introduced. This new programme is accessible to the entire organisation and facilitates the identification of the most appropriate corrective action.

	2007	2008
Claims	100,370	130,645
Complaints	93,895	106,768





Certification of the 17 automated processing centres in accordance with the ISO 9001 and 14001 standards.

ASSESSMENT OF CUSTOMER SATISFACTION

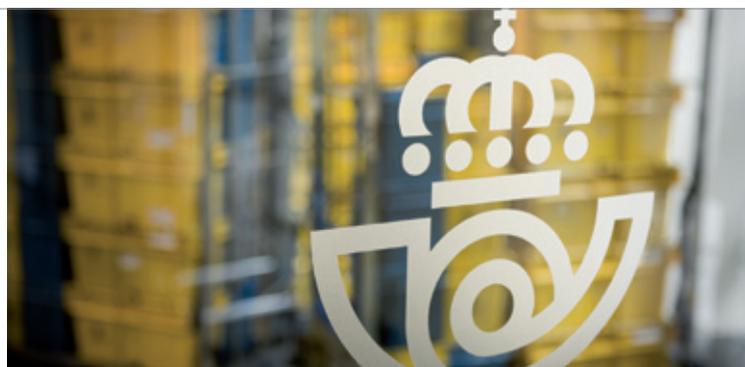
Once again, Correos was the most positively viewed public service. The latest survey by the *Centro de Investigaciones Sociológicas* (Sociological Research Centre, CIS) entitled “*Opinión pública y política fiscal*” (Public Opinion and Fiscal Policy) revealed that 69.2% of citizens classified Correos as “quite” or “very” satisfactory, compared to 63.6% in 2007.

Furthermore, the “Trust Index” undertaken in 18 European countries and the United States by the German consulting firm GfK concluded that the postal service comes second in terms of inspiring trust, after the fire department. In Spain, the acceptance percentage stood at 82%, compared to an average of 70% in other Western European countries.

■ Improved processes and management

Correos uses the European EFQM model as a reference to identify its strengths and the key areas where it has to improve. One of its main instruments is process-based management, which supports a customer-centred focus through an overall vision of the Company, operating standardisation, optimising resource allocation and information transfers.

In accordance with this model, last year the post office network obtained the “European Excellence 400+” award, which renewed that achieved in 2006 for a further two years and with an improved score. This distinction, equivalent to the Recognised for Excellence 4 Stars level, within the EFQM Levels of Excellence framework, was awarded by the *Club de Excelencia en Gestión* (Management Excellence Club), which represents EFQM in Spain.



	Certifications	Scope	Standard
Post offices	17 main post offices	All of the processes	ISO 9001 ISO 14001
	Remaining post offices	Part of the processes	ISO 9001
Centres	17 automated processing centres	All of the processes	ISO 9001 ISO 14001

Furthermore, the scope of the ISO 9001 and ISO 14001 certificates on quality and environmental management systems was extended, with the incorporation of all of the processes in the 17 automated processing centres and 17 main post offices.

extended to money transfer and sorting and containerisation operations. By the end of the year, 2,235 post offices held certifications for all four processes.

In conclusion, 2,252 postal facilities (44% of the total) certified their activities in accordance with the Company's quality management system.

The remaining branches already held ISO 9001 certifications for the delivery of ordinary and registered mail items and for the provision of BanCorreos financial services. In 2008, these were

“European Excellence 400+” (“Recognised for Excellence 4 Stars”) award for the post office network.

Certifications	2007	2008
Certified facilities	2,075	2,252
Percentage of total	40%	44%
Employees working in certified facilities	12,590	19,183
Percentage of total	19%	29%

The Company also supports a culture of continuous improvement through different models that recognise excellence:

- The *Premio Hermes* (Hermes Prize) is awarded to the delivery units that stand out most for their management, both nationally and within their respective zones. In 2008, 181 units took part in the assessment process (10% of the total).
- The *Premio a la Oficina Excelente* (Excellent Post Office Prize) recognises those that obtain the highest scores in their respective internal

audits. Those who earn more than 300 points become part of the “*Club de los 300*” (300 Club), which featured 1,344 post offices in 2008, representing 60% of the network.

Employees can also contribute to corporate efficiency through their participation in the *Premio a la Innovación Postal* (Postal Innovation Prize). This prize was being held for the third time and received 119 proposals, 32 more than the previous year, divided into five categories (products; processes; corporate social and environmental responsibility;



Technological innovation

The *INTEGRA* Project is Correos' initiative aimed at the overall modernisation of technological infrastructure and management systems. Thanks to its introduction over recent years, automation and processing capacity has increased, as has the ability to adapt to new needs that arise in the business.

The actions developed in 2008 within the project were aimed at optimising the business' support systems and at improving technological infrastructure.

■ Information and business systems

These systems guarantee support for the Company's critical functions. Within this area, the introduction of the following applications nationwide was completed:

- Integrated Mail Management System (*SGIE*) controlling almost 2 million registered mail items daily. The system's inter-operability provides, among other options, the management of electronic delivery notices, the sending of SMS messages stating that items may be collected from a post office and integration with the PDA-type portable terminals used by delivery staff.



- Single Admission and Sales System (*IRIS 6*), a multi-channel platform which centralises the 18 million admission and sales operations carried out daily at the Company's service points (post offices, mass admission centres and online post office).

RFID TECHNOLOGY

The gradual introduction of radio frequency control technology (RFID) in Correos' processing centres has increased delivery traceability and awareness of the delivery times in the postal process' intermediate stages. In this way, both internal logistics management and the quality of final delivery to the addressee have been improved.

The radio frequency control model is based on the use of tags inserted into test letters which, once detected by the antennas and readers installed at the centres, send out location and time in transit information to a central application.

Over 2008, 37 new servers, 190 readers and 543 antennas were installed in a further 37 facilities. Consequently, 54 logistic platforms now feature this technology, including the 17 automated processing centres. Furthermore, 10,000 new tags were acquired for use with test letters and 2,000 transport trolleys were equipped with these devices.



OPERATING CENTRES WITH RFID TECHNOLOGY

- Automated processing centres
- Mass admission centres
- Postal processing centres



38

39

54 processing centres now feature RFID technology.

MOBILITY SOLUTIONS

Correos takes special care of the development of technological solutions adapted to the mobility of its staff. In 2008, the Company completed the second phase of the programme designed to equip postmen with PDA-type portable terminals, with the inclusion of 17 ordinary delivery units into the project.

Furthermore, additional functions, such as on-screen signature option and digitalisation of delivery notices, were incorporated into the equipment which was already operative in the urgent distribution units.

■ Technological infrastructure

The stand out adaptations in this area consisted of the consolidation of the IT platform and the introduction of virtualisation solutions. This allowed the number of services in use to be reduced by 55%, to increase the performance and scalability of applications, and to decrease energy consumption and, thus, reduce CO₂ emissions by 90%.

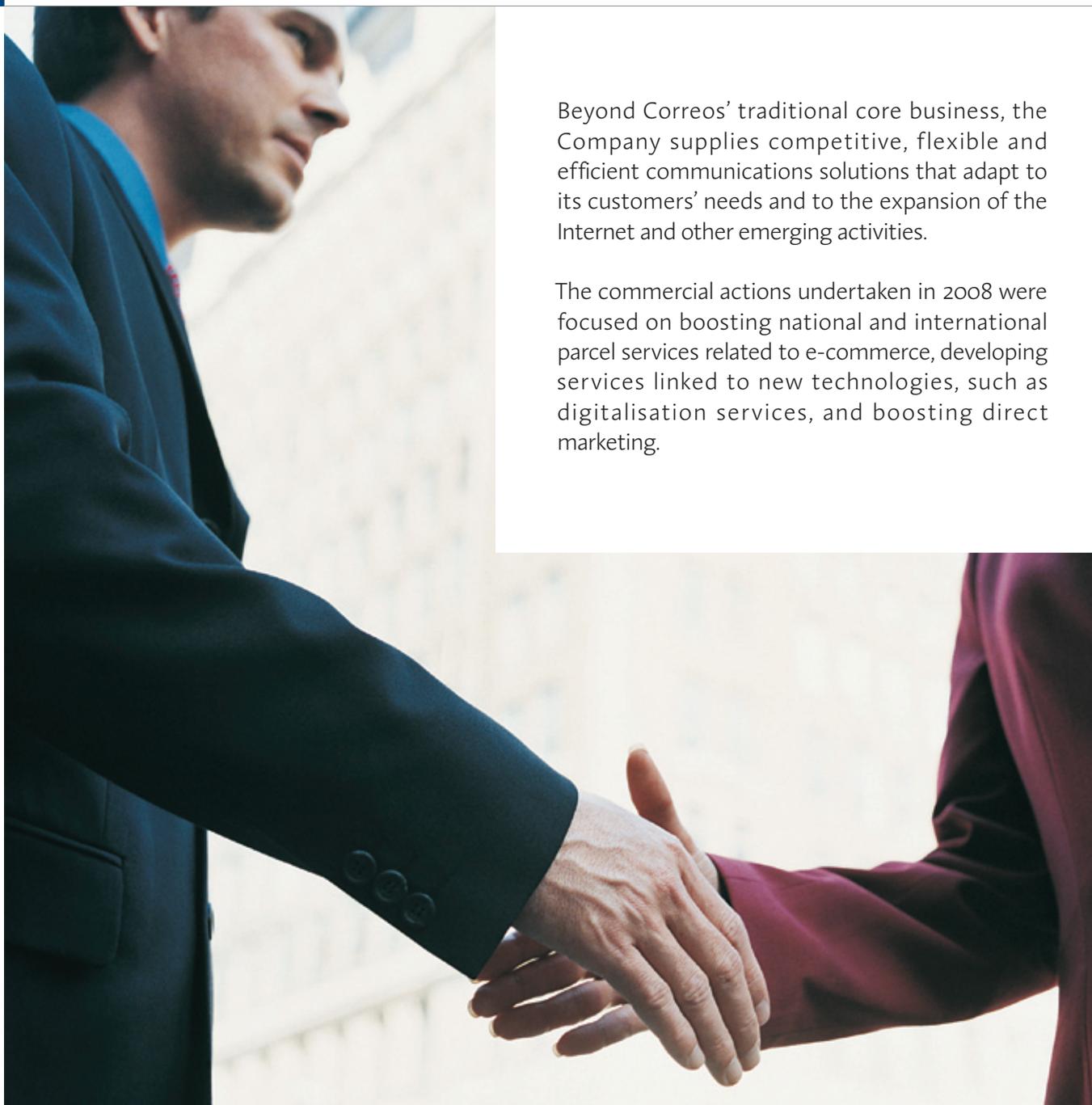
Furthermore, as part of the yearly programme for upgrading micro-computing resources, 10,000 pieces of equipment were renewed.



Products portfolio

Beyond Correos' traditional core business, the Company supplies competitive, flexible and efficient communications solutions that adapt to its customers' needs and to the expansion of the Internet and other emerging activities.

The commercial actions undertaken in 2008 were focused on boosting national and international parcel services related to e-commerce, developing services linked to new technologies, such as digitalisation services, and boosting direct marketing.

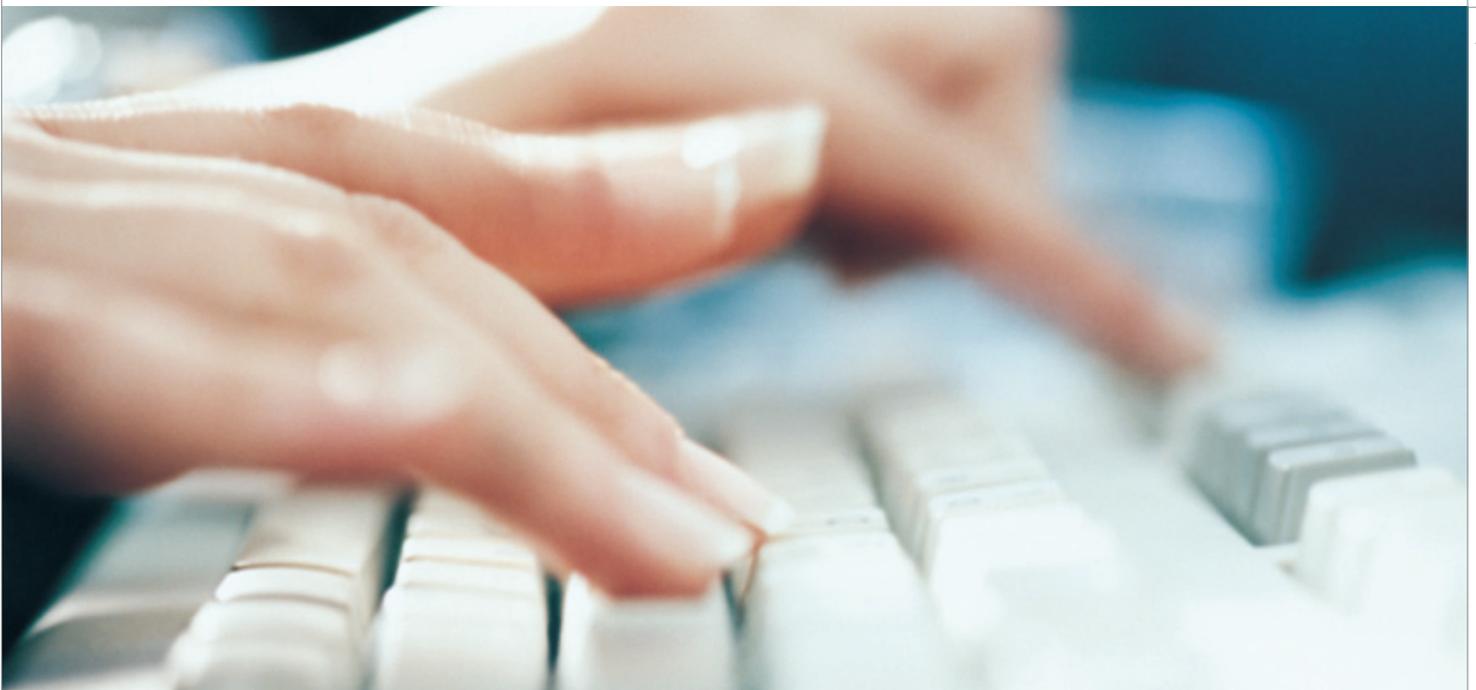


■ Products and services

As the operator designated to provide universal postal service in Spain, Correos makes this basic right possible for millions of private customers and businesses. The Company also meets the specific demands of other segments of customers, such as small and medium enterprises, mail order companies, utilities suppliers, the immigrant population and other groups in society, to whom it provides tailor-made solutions for mail, financial services, advertising and parcel delivery, both domestically and internationally.

EVOLUTION OF E-COMMERCE IN SPAIN

Adapted from Telecommunications Market Commission statistics



Correos is acutely aware of the potential development of direct marketing as a commercial communications technique, and thus offers a range of alternatives, ensuring optimal results for companies in their information, customer attracting and loyalty campaigns.

The Company is also developing parcel services aimed at meeting the requirements of e-commerce. In 2008, Correos signed a new cooperation agreement with eBay, the first stage of which consisted of the integration of both companies' technological platforms. Thanks to this agreement, the online auction site's users were provided with preferential access to www.correos.es, allowing them to automate tasks of delivery preparation, payment and monitoring of items. As part of the same cooperation framework, the Company will launch "Postal eBay" (postal parcel) onto the market. This is an exclusive "Postal Expres" (urgent parcel) mode designed for this website's buyers and sellers.

Correos' range of services is complemented with solutions specifically adapted to the Internet environment, available from the online post office, such as the online bureaufax and the online telegram. An innovative product in 2008 was the "Apartado postal electrónico" (electronic P.O. Box) (see the "Online services" chapter). The Company hopes this service will facilitate digital communication between individuals, companies and government bodies.

The "Domiciliate" service, which allows users to send out a free change of address notification to the businesses registered with the service, already features nearly 100 adhered enterprises from across all sectors. A promotional campaign was undertaken last year to inform people of the service's advantages and strengthen the synergies with the "Reenvío postal" (forwarding) service.



Correos signed a new cooperation agreement with eBay to develop parcel services.

Likewise, new issuers were added to the “*Notificaciones Telemáticas Seguras*” (Secure Telematic Notifications) system. These issuers use the system to send notifications to the public through a secure electronic channel. Furthermore, a new added value was incorporated: informing customers by a daily SMS sent to their mobile phone of the number of notifications received.

Correos participated in sector-based meetings in which it promoted the innovations applied to its range of products and had the opportunity to get to grips with new trends in the market, with particular focus on e-commerce, direct marketing and logistics. In 2008, the Company took part in events such as the “European E-Commerce Conference” and the “IV Encuentro Hoy es Marketing” (4th Today is Marketing Meeting), the “Next Marketing Forum” and the “Salón Internacional de la Logística” (International Logistics Meeting).

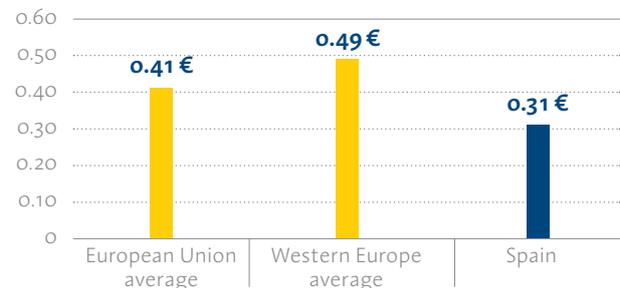
■ Rates

Postal rates were updated in January 2008, applying an average increase of 2.9%, a percentage which was below the Consumer Price Index.

The price of standard domestic letters and postcards weighing up to 20 grams was set at 0.31 euros, and those sent throughout Europe at 0.60 euros, remaining among the cheapest postal tariffs in the European Union.

POSTAL RATES OF STANDARD LETTER UP TO 20 GRAMS

Rates as of 1 February 2008





Operations and processes

Correos provides postal services nationwide, guaranteeing daily collections, processing, transport and distribution of mail items, in accordance with quality, regularity and accessibility requirements.

■ Collection and admission

The Company facilitates the businesses and private customers' initial access to postal services through post offices, letter-boxes, rural services and mass admission units. Refurbishment work was completed in 2008 at the mass admission units in Vigo, Pontevedra, Ourense, Burgos, Segovia, Zamora, León, Huesca, Bilbao and Alicante.

Furthermore these centres began to handle 90% of collections from customers, which used to be handled by the special service and ordinary delivery units. As a result, the latter were able to dedicate more resources to distribution tasks.

Operating centres 2008

Mass admission units	57
Automated processing centres	17
Postal processing centres	38

Automated processing lines 2008

Standard mail	39
Non-standard mail (flat)	14
Letter-box mail	12

■ Processing and sorting

Correos has a range of different centres designed to undertake postal sorting tasks. The latest of the 17 automated processing centres planned under the Automation Plan has now been inaugurated in Alicante. This new facility required a 20.5 million euro investment and has enough capacity to sort more than 1 million mail items daily.

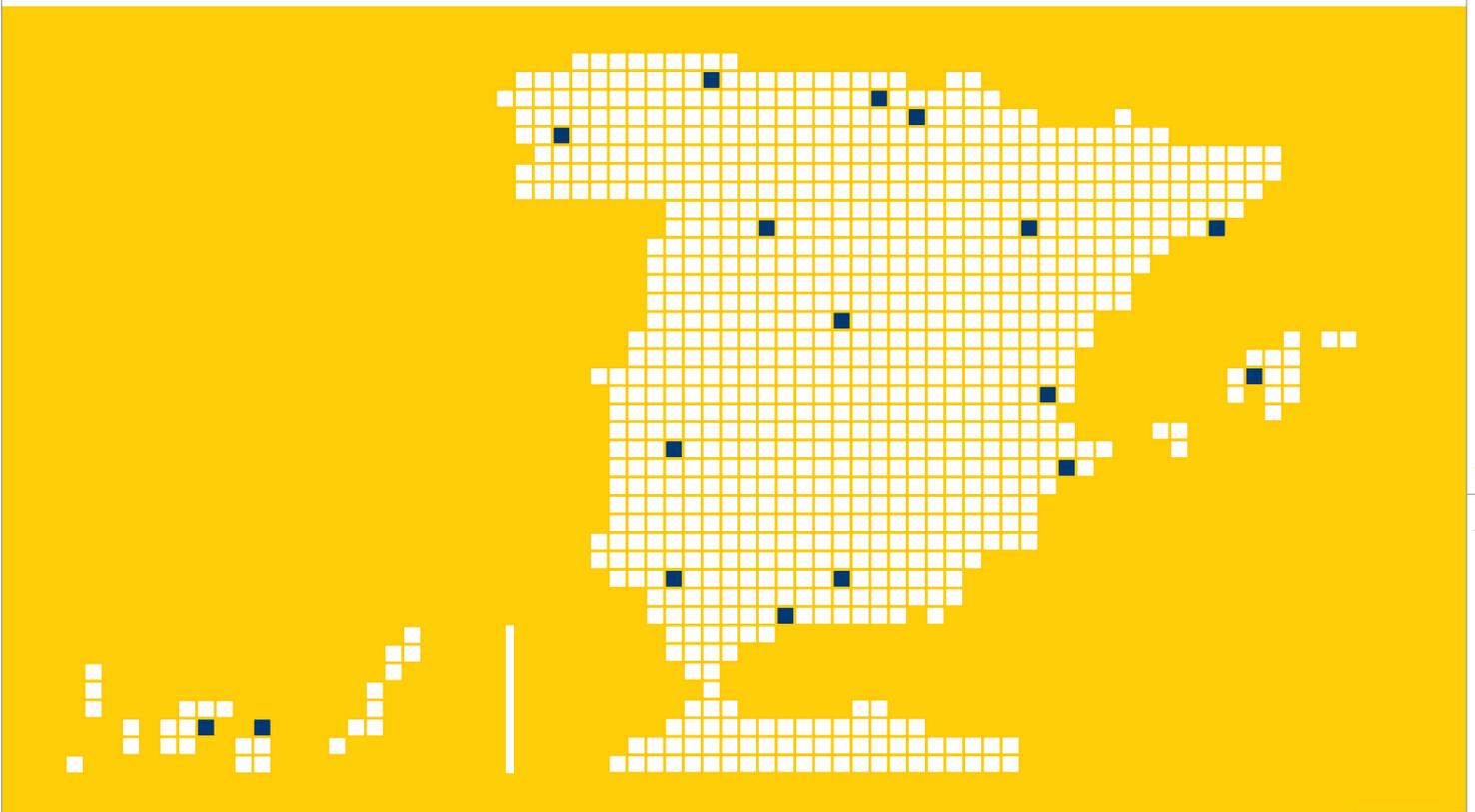
Furthermore, the automated centres located in Madrid, Seville, Bilbao, Vitoria, Mérida, Palma de Mallorca, Barcelona, Las Palmas de Gran Canaria, Tenerife and Zaragoza were renovated and more than 200,000 elements of logistics equipment were incorporated.

Three new sorting lines were also added, one for standard mail, another for non-standard or "flat" mail and a third for postal items collected from letter-boxes. Consequently, the total number of lines for processing the different categories of mail items rose to 65.



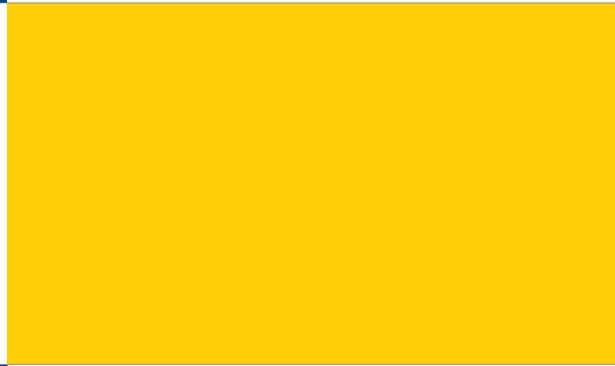
Opening of the Alicante automated processing centre.

AUTOMATED PROCESSING CENTRES



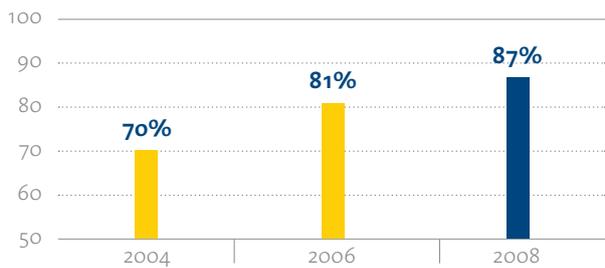
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PERCENTAGE OF AUTOMATED MAIL

Basic line mail



The percentage of basic line mail that has now been automated reached 87%. In total, 14,391 postmen received section-sorted mail, 1.7% more than in 2007..

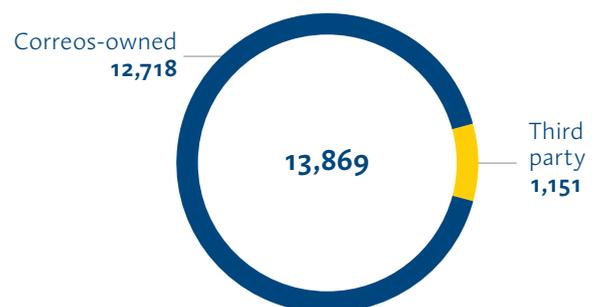
Transport

Last year, the delivery fleet had 13,869 vehicles, both company-owned and third party-owned, 6.3% more than in 2007.

Over the year, 485 vans, 20 large vans and 935 motorcycles were purchased. Thanks to these purchases, 6% of the company-owned delivery fleet was replaced, thus reducing the fleet's average age, maintenance costs and the environmental impact of our business.

Other actions consisted of bringing the inter-zone network's schedule forward through the restructuring of the overnight express network, in addition to the creation of 9 direct weekend routes to alleviate congested mail flows through Madrid.

VEHICLES





The percentage of basic line mail that has now been automated reached 87%.

Punctuality of transport routes	2007	2008
Arrivals	94.6%	96.3%
Departures	98.1%	98.7%

■ Distribution and delivery

The delivery units, special service units (responsible for delivering urgent mail items) and rural services handle distribution and delivery.

Last year, Correos increased the number of delivery units to 1,821 and introduced the new mail delivery model in 152 of them. As a result, the proportion of centres operating under this management system increased to 93% of the total. Furthermore, the Company purchased more than 39,000 pieces of logistics equipment.

As part of the activities included in the Emuse Plan to modernise the special service units, the Company renewed operating furnishings and introduced additional improvements to the management of their processes.

Territorial coverage was completed through a network composed of 933 auxiliary post offices and 6,743 rural linkages. With the aim of optimising distribution and detecting new needs, dimensioning studies were carried out in 1,081 urban delivery sections and 1,237 rural services, resulting in the creation of an additional 161 sections and 54 rural services.

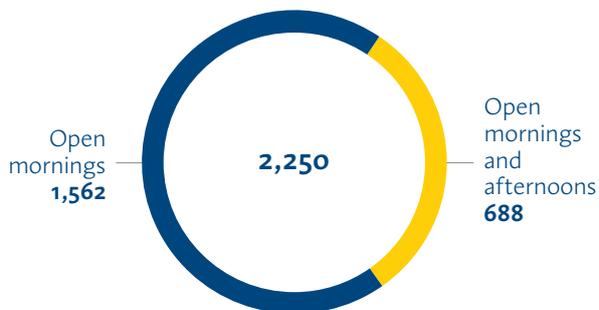
Rural service points	2008
Auxiliary post offices	933
Rural linkages	6,743
Total rural service points	7,676



Accesibility and multi-service post offices

The post office network contributes towards guaranteeing optimal access levels to the service provided by Correos and acts as a multi-service distribution channel, marketing both postal products and products of other types.

POST OFFICES



■ Post office network accessibility

Accessibility is a basic universal postal service requirement and one of the Company's greatest competitive advantages. Actions designed to increase the network's availability, which was composed of 2,250 establishments in 2008, consisted in:

- The opening of multi-service post offices, especially in new population centres and areas where large numbers of users are concentrated (shopping centres, business parks) through the creation of establishments or the transformation of auxiliary post offices.
- The extension of opening hours and increased flexibility.
- The removal of the last remaining architectural barriers covered in the 2005 plan.

The Company completed a total of 126 building works, including purchases and renovations, with a total investment of 43.2 million euros, representing 18.2% of the Company's investment.



Correos invested a total of 43.2 million euros in the post office network.

Multi-service post office

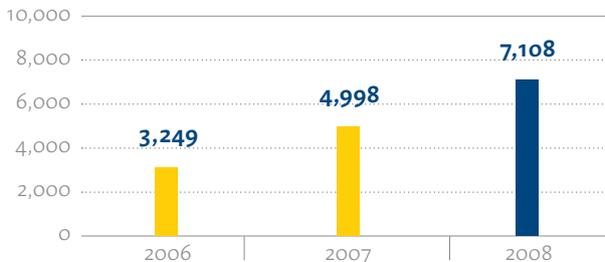
Multi-service post offices are integrated centres in which it is possible to access a large number of services through a single access point. These services include postal and post-related services, financial and telecommunications services, philately and pre-franked products and convenience products (stationery, photography).

These establishments make it easier for the public to pay bills issued by the 17 participating companies, basic household service providers and those providing other services. In 2008, 7.1 million bills were processed, 42.2% more than the previous year.

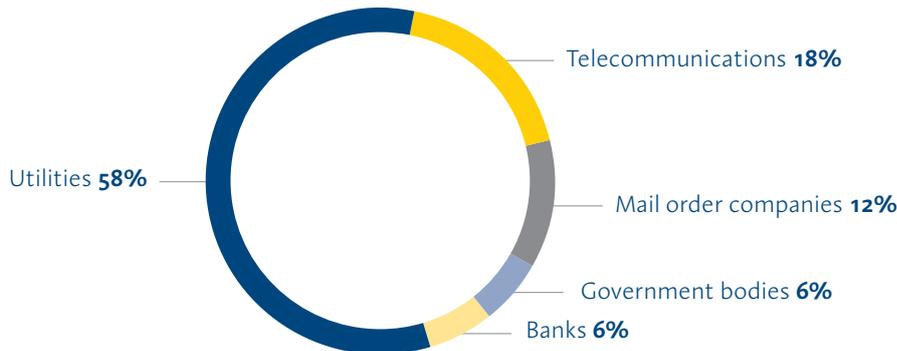
These centres also offer the possibility of updating credit on pre-paid cards issued by a wide range of companies, such as *Viajes Crisol*, which includes “*Crisol-Hotel Color*” and “*TurCorreos*”, designed for the payment of tourist services.

BILLS PAYMENTS AT POST OFFICES

In thousands



COMPANIES ACCEPTING BILL PAYMENTS AT POST OFFICES, BY BUSINESS SECTOR





BANCORREOS

BanCorreos is the financial brand that was founded in 2006 as a result of the agreement between the Company and Deutsche Bank. It is available in post offices, on the www.bancorreos.es website and through the customer service helpline 902 337 338.

The number of customers increased by 13.4% last year to 181,986. Consumer loans were one of the most sought after products, increasing by 2%.

BanCorreos	2007	2008
Customers	160,549	181,986
Liabilities*	761,771,192	822,447,460
Assets*	433,414,012	500,416,127

* In euros

OTHER FINANCIAL SERVICES

Correos offers a range of fast and secure money transfer alternatives. In 2008 the Company created “Correogiro”, an international product whose main advantages are express delivery (15 minutes) and among the most cost-effective rates on the market.

The Company also has an agreement with Western Union through which it offers the “*Dinero en minutos*” (Money in Minutes) service, which facilitates the transfer of remittances to more than 200 international destinations.

All of these options are in considerable demand from the foreign-born population residing in Spain. According to the *Encuesta Nacional de Inmigrantes 2007* (2007 National Immigrants Survey) carried out by the *Instituto Nacional de Estadística*, Correos’ money transfer products are one of the preferred options among all those available on the market.

TELECOMMUNICATIONS SERVICES

Within its role as a complete communications solutions provider, Correos markets a range of telecommunications services in collaboration with a number of companies. The Company shares the Correos Telecor network with *El Corte Inglés*, made

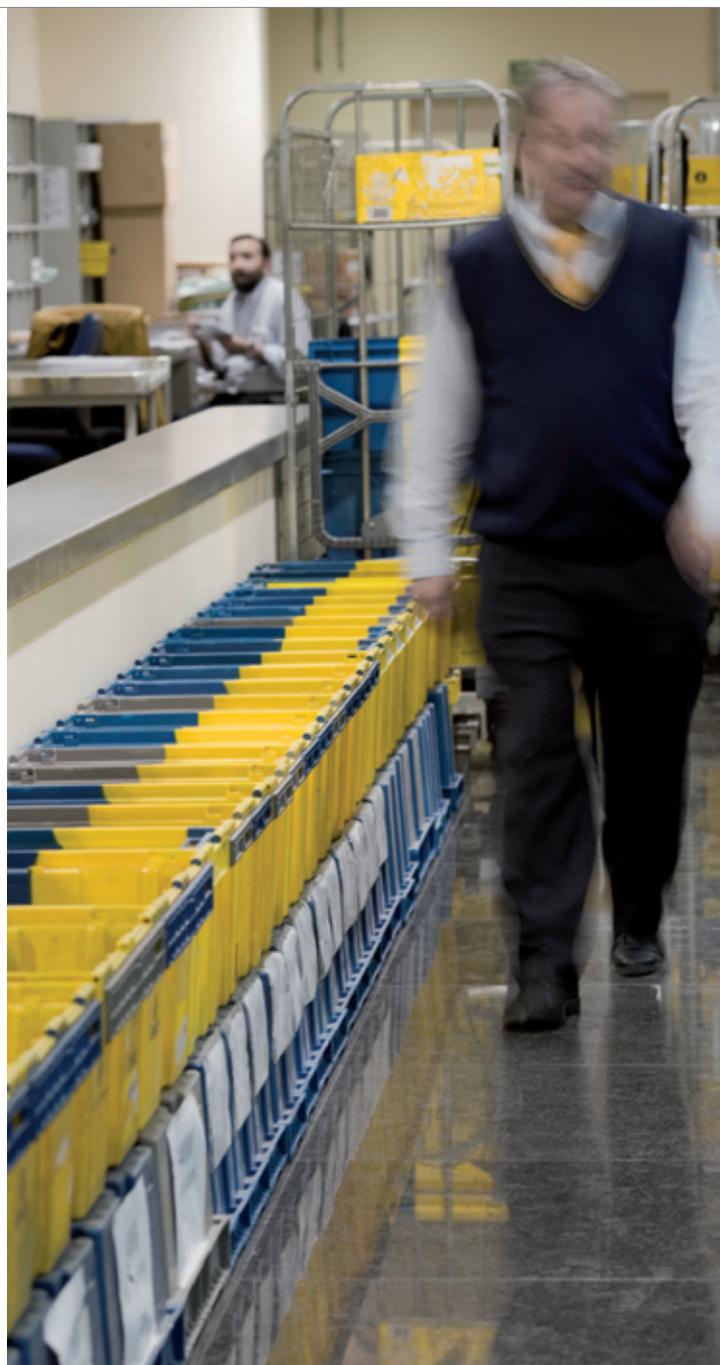
In 2008, Correos handled the payment of 7.1 million bills issued by other companies, 42.2% more than the previous year.

up of 68 establishments where mobile and landline telephone, digital and analogue television, Internet and home security services can be purchased. The Company also provides public telephone access in 128 post offices.

■ Evolution of post office revenue

Across all sales generated in the post offices, post-related products saw growth of 24.8%, followed by non-postal services, which grew by 12.0%. However, financial activities and Western Union money transfers, which are more closely tied to the evolution of the economy, suffered a 10.3% and 3.3% decline, respectively.

Revenues by category	Change 2007-2008
Post-related products	24.8%
Non-postal services	12.0%
Financial services	-10.3%
Philately products	-0.8%
Western Union services	-3.3%





Online services

New electronic media are instruments that complement postal communication as they allow products with greater added value to be created, marketing options to be increased, and in general, raise the availability and quality of the services on offer.

Correos contributes, furthermore, to the development of the information society and, in particular, e-Government, by providing solutions that facilitate the citizens' access to public services by means of digital systems.

■ The online post office

The online post office (www.correos.es) is the online channel through which Correos offers a variety of services, from traditional postal products to products created specifically for the electronic environment. A range of different payment options are available to the public through this website.

This marketing channel increased its sales by 33.3% in 2008. Products such as the "Online bureaufax" (+74.5%), the "Online telegram" (+35.1%) and "Digital mail" (+14.5%) contributed to this growth.

The postal website received an average of 2.4 million visits per month, 26.3% more than the previous year. The number of registered users increased by 8.4%, exceeding 100,000.

One of the stand out business innovations of the year was the "Apartado postal electrónico" (electronic P.O. Box), which transfers the traditional P.O. Box concept to the online world, providing both individuals and organisations with a single access point for their digital format documentation.

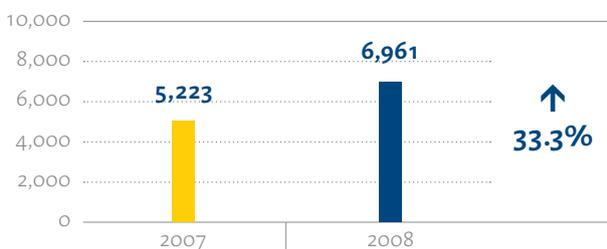
The public will have a virtual file, hosted in Correos' servers, where their communications (bills, bank statements, notifications, business transactions, etc.) from selected issuers (companies and

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ONLINE REVENUE

In thousands of euros

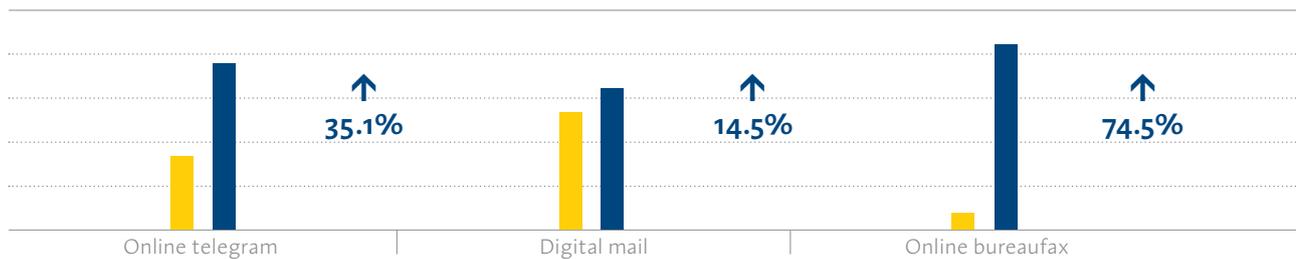




The online channel increased its sales by 33.3%.

EVOLUTION OF PRODUCTS AND SERVICES

■ 2007 ■ 2008

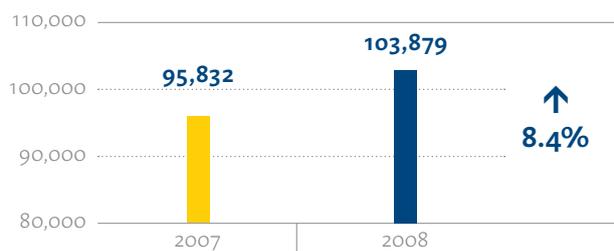


government bodies) will be stored. Likewise, these issuers will receive information from registered customers.

The first phase of the service began in 2008 with the launch of “*Correo electrónico seguro*” (secure electronic mail), a confidential and free e-mail account which fulfils the functions of a permanent electronic postal address.

Once introduction has been completed, the “*Apartado postal electrónico*” will allow mail to be managed with a complete authenticity, confidentiality and integrity guarantee. The system will enable the encoded transmission of messages, the validation of both the sender and addressee’s identities, the traceability of deliveries and the certification of the collection, reception and content of electronic documents.

REGISTERED USERS



Based on these characteristics, Correos aims for this new service to contribute towards the relationship between government bodies and the public using digital media and the development of electronic commerce, by facilitating electronic sales.

International activity

Correos' internationalisation aims to increase the competitiveness of its products, adapt to new demands and to position itself among the main postal operators.

To do so, Correos markets a wide range of products and services adapted to the cross-border needs of its customers. The Company has established and maintains alliances with its foreign counterparts so as to optimise operations and quality, and extend the coverage of its networks, and participates in supra-national bodies where it combines defending its interests with supporting cooperation between members.

■ Kahala Posts Group

In 2008 Correos completed its integration into the Kahala Posts Group (KPG), after having adapted its information systems and processes to this commercial and operational alliance's requirements.

Participating in this group provides significant benefits, such as increased brand visibility and new flows of cross-border mail originating in the countries whose operators are members. Furthermore, the interest shown by other postal operators, such as Pos Malaysia and Thailand Post, in joining the group, increases KPG's future geographical scope and improves the possibilities for international business.





Integration into the commercial and operational alliance Kahala Posts Group.

KAHALA POSTS GROUP COVERAGE



Commercial activity

Correos' target markets are Latin America, the KPG territories and Europe, which, due to its geographical proximity and existing business links, generated 85% of international outbound mail last year, and represented a similar relative weight in inbound items.

One of the channels the Company uses to develop its international activities is direct injection from and to Spain, which provides overseas customers with access to postal products and domestic rates and which provides addressees with a feeling of closeness. Initially composed of letter and

Direct injection	Change 2007-2008
Inbound items	8.9%
Outbound items	72.4%

International mail volumes	Change 2007-2008
Inbound items	2.4%
Outbound items	-7.8%

Publiccorreo direct mail products, direct injection was later expanded to include parcels and registered letters, among others.

In 2008 direct injection saw an 8.9% increase in cross-border inbound volumes and a 72.4% rise in cross-border outbound volumes.

International inbound letters grew by 2.4% while outbound letters trended downwards.

The economy line and urgent parcel services (EMS) also grew thanks to new flows from the main postal operators in Asia and Oceania and due to the expansion of electronic commerce.

■ Operations

One of the most important new features seen over the year was the automation of inbound international parcel processing, a requirement derived from the more than 300% increase seen in this type of flow since 2003.

Therefore, a new automated sorting system was brought into operation in the Barajas postal centre, requiring an investment of more than 1.2 million euros and increasing said facilities' operating capacity and productivity. By the end of 2008, it was possible to process more than 330,000 parcels per month, a figure which will gradually increase.



Introduction of an automated international parcel processing system at the Barajas centre.

International parcel volumes	Change 2007-2008	EMS (Express Mail Service) volumes	Change 2007-2008
Inbound items	19.7%	Inbound items	28.5%
Outbound items	1.5%	Outbound items	4.3%

■ Institutional relations

Correos participated actively in forums, discussion groups and international institutions specialised in postal topics. Within the European Commission, the Company participated in the seminars to monitor postal reform and the transposition of Directive 2008/6/EC. Within the Euromed Postal Committee, Correos shared its experiences with operators from other countries from and around the Mediterranean on issues such as the development of financial services and diversification.

The Company was also present in the International Post Corporation (formed by the 24 most advanced postal operators from around the globe) and in PostEurop (a regional organisation including all European public postal operators).

Correos also took part in the 24th Conference of the UPU (Universal Postal Union) in Geneva (Switzerland). During that meeting, Spain was re-elected as a member of the Postal Operations Council for the 2008-2012 period and was awarded the presidency of the Nairobi Postal Strategy Implementation Project Group and the vice-presidency of the Joint CA/POC Committee on Development and Cooperation.

Within the framework of the Postal Union of the Americas, Spain and Portugal (UPAEP), in which Spain chairs the Terminal Dues Group, Correos signed a cooperation agreement that facilitated the development of 15 projects. These projects focus on the introduction of codification systems to improve delivery, postal reform, the optimisation of urgent parcel services and legal consultation.

Philately

Correos' philatelic activities include issue proposals and distribution of stamps, promoting collecting and the marketing of products relating to stamp collecting.

In 2008 more than 50 million stamps were issued as sheets of varying format, block sheets, stamp-proofs, pre-franked cards and pre-stamped envelopes. Additionally, more than 300 postmarks and commemorative stamps were produced, as were 48 first day of circulation envelopes.

Among the publications produced by Correos, the *Libro de los Sellos de España y Andorra 2008* (The Book of Stamps from Spain and Andorra 2008) and the album book *Juegos y Deportes Tradicionales de España* (Traditional Spanish Games and Sports), a monograph featuring 16 themed postmarked stamps and more than 200 photographs and illustrations, stand out.

A total of 48 new stamp and 6 pre-stamped envelopes series were issued, with a total of 103 stamps, 5 pre-stamped envelopes and 4 pre-franked cards. Joint production carried out with other postal operators and international bodies included the launch of a traditional dance themed stamp in collaboration with the Irish postal operator, An Post, and a stamp on national festivals with the members of the Postal Union of the Americas, Spain and Portugal (UPAEP).

The application of innovative stamp production techniques made it possible to issue the first Spanish stamps with relief features, dedicated to four creations by the Spanish designer Pedro Rodríguez.

Through the electronic service "*Tu sello*" (your stamp), which makes it possible for customers to personalise stamps to include their own motifs, 3,420 design proposals were approved, resulting in 420,500 stamps being issued.

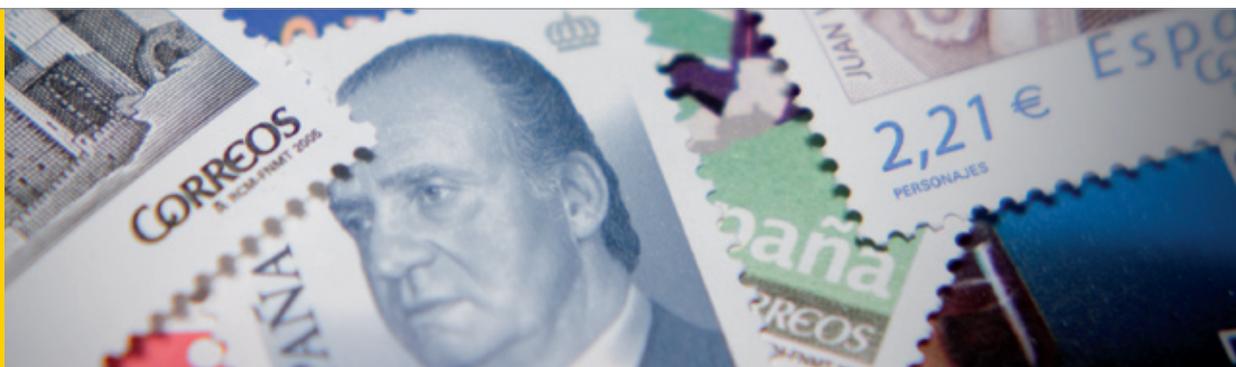
Correos worked with the Royal Hispanic Academy of Philately to support its programme of research and education on Spain's postal history in its specialist journal *Academus*. Furthermore, the Company sponsored the annual school exhibitions plan developed by the Spanish Federation of Philately Societies (*FESOFI*). Through the 23 exhibitions held during 2008, thousands of children came into contact with stamp collecting for the first time.



The application of innovative stamp production techniques made it possible to issue the first Spanish stamps with relief features.

THEMES APPEARING IN SOME STAMPS ISSUED IN 2008

Traditional Spanish games and sports	<input type="checkbox"/> <i>Bolos</i> (bowling)
	<input type="checkbox"/> <i>Castells</i>
	<input type="checkbox"/> <i>Regatas de traineras</i> (boat races)
	<input type="checkbox"/> <i>Lucha</i>
	<input type="checkbox"/> <i>Levantamiento de piedras</i> (stone lifting)
Nature	<input type="checkbox"/> <i>Hoces del Río Duratón</i> Nature Park and <i>Montes de Toledo</i> Nature Park
	<input type="checkbox"/> Birds, flowers and mushrooms
Sports	<input type="checkbox"/> Spanish national football team
	<input type="checkbox"/> 100 th anniversary of Spanish Royal Federation of Tennis
Beijing 2008	<input type="checkbox"/> Olympic Games. ADO (Olympic Games Association)
Civic values	<input type="checkbox"/> Against gender violence
	<input type="checkbox"/> Against child labour
	<input type="checkbox"/> Solidarity between generations
	<input type="checkbox"/> Cultural diversity
Spanish painting	<input type="checkbox"/> Tapestries attributed to Francisco de Goya
	<input type="checkbox"/> Self-portraits attributed to Darío de Regoyos and Antonio M ^a Esquivel
Architecture	<input type="checkbox"/> Modernist buildings (<i>Longoria</i> Palace and <i>Vicens</i> House)
	<input type="checkbox"/> Contemporary architecture (Tenerife Theatre, <i>Agbar</i> Tower and <i>Montjuic</i> Telecommunications Tower)
	<input type="checkbox"/> Lighthouses (<i>Torredembarra</i> , <i>Irta</i> , <i>Punta Pechiguera</i> , <i>Cabo Silleiro</i> , <i>Cap de Barbaria</i> and <i>Punta Orchilla</i>)
	<input type="checkbox"/> Castles (<i>Maqueda</i> and <i>La Calahorra</i>)
	<input type="checkbox"/> 50 th anniversary of European Parliament
Anniversaries	



Correos also promoted and participated in the most important philatelic fairs and exhibitions both within Spain and internationally. The following events stand out:

- 40th National Stamp Fair. Madrid.
- 46th National Philatelic Exhibition “*Exfilna 2008*”. Oviedo.
- Philately Fair 2008. Barcelona.
- First Bi-national Hispano-French Philately Exhibition “*GIRONA 2008*”. Girona.
- WIPA 08 International Philately Exhibition. Vienna (Austria).
- 26th International Philately Fair. Sindelfingen (Germany).
- 62nd Autumn Philately Fair. Paris (France).

■ *Expo Zaragoza 2008*

Correos was one of this international meeting’s sponsors, at which the Company had its own pavilion where stamp collecting was given a prominent position.

During the event, philatelic products were on sale, such as a commemorative folder featuring the six stamps from the themed collection dedicated to *Expo Zaragoza 2008*. Visitors also had that opportunity to create fictional stamps with their faces inserted onto the outline of well-known people, and to participate in a virtual game recreating the postal process.

In the “*Tu sello*” area, visitors had the chance to create a sheet of 25 personalised and valid stamps using images relating to the exhibition, an initiative which was also extending to the participating countries and companies. As a result, the Spain, Extremadura, Castilla-La Mancha, Ceuta, Japan, Germany, Turkey, Malta, Saudi Arabia, Angola and Morocco pavilions all had their own stamp.



A themed collection of stamps dedicated to *Expo Zaragoza 2008* was issued.

COMMEMORATIVE COLLECTION OF STAMPS

- Expo Zaragoza 2008*
- Expo Zaragoza 2008* fair
 - Expo Zaragoza 2008* logo and mascot
 - Pabellón Puente* (Bridge Pavilion) and *Torre del Agua* (Water Tower) buildings
 - Block sheet (emblematic buildings of the fair)
 - Block sheet (monument dedicated to Goya and *Basílica del Pilar* (Pilar Basilica) view)
-

■ Postal and Telegraphic Museum

The Postal and Telegraphic Museum conserves pieces that are representative of postal, telegraphic and philatelic history and which are displayed in seven rooms. The public has been able to view these pieces virtually since 2008 through the www.correos.es website.

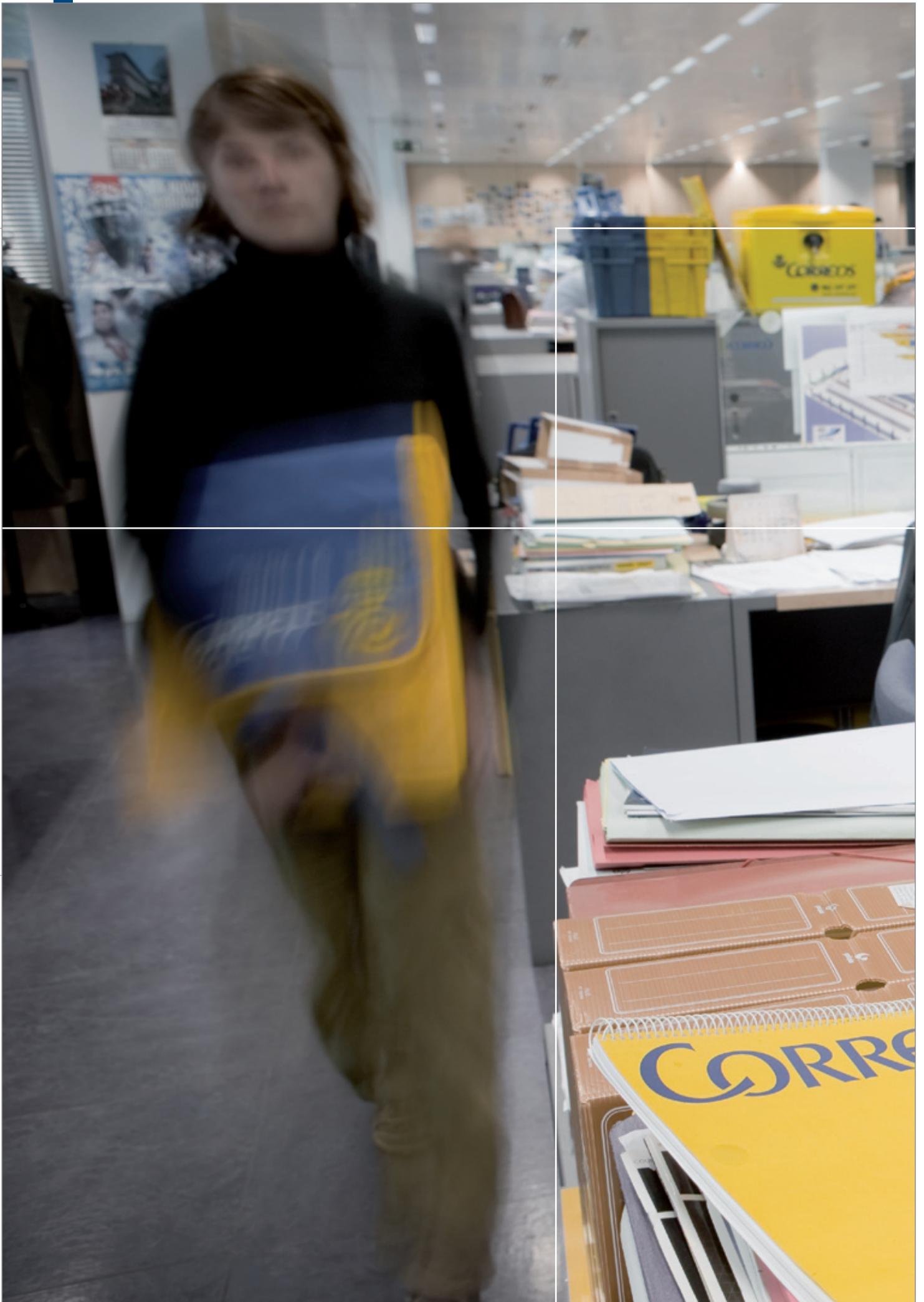
The Postal History Rooms offer a journey through the last three centuries of postal communication; the Telecommunications Rooms contain telegraph devices from the 19th and 20th centuries and a

space dedicated to the beginnings of telephony in Spain; the Philately Room exhibit a collection of stamps from across the world and sheets of stamps issued in Spain.

The Museum's Library and Documentation Centre provide researchers and the public with a bibliographic resource containing more than 23,600 documents and publications and a postal cartography collection.

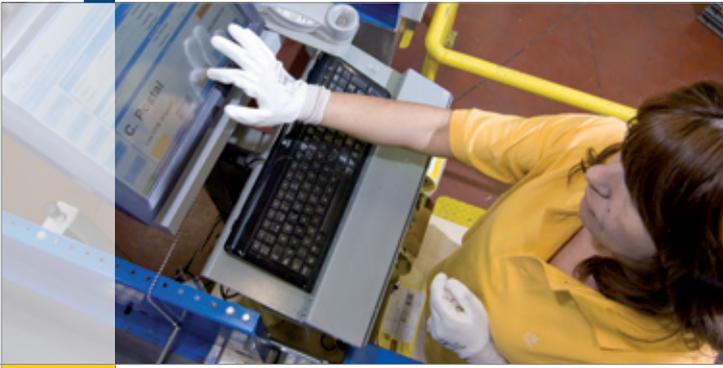
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3. Employees



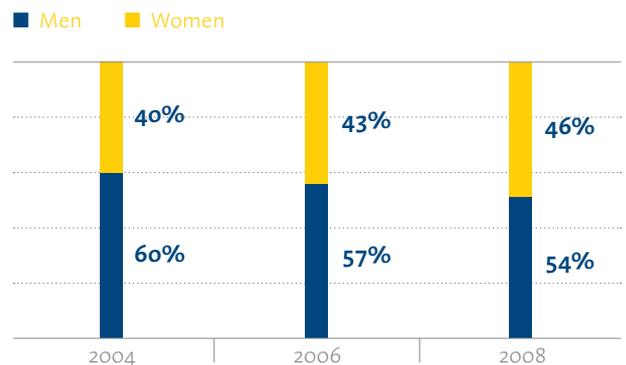
Correos is one of the largest companies in Spain by number of employees. One of the Company's strengths is precisely its presence across the whole country and the personalised service it provides to private individuals and businesses.

Correos' human resources policy is focused on stable and quality employment, professional development and training, and the involvement of all employees in corporate objectives.

For the second year in a row, Correos has been named the "*Empresa TOP para trabajar 2008*" (2008 TOP Company to Work For) by the international organisation CRF, due to its ability to apply innovation to the integral management of human resources. The Company also received first prize in the "World Mail Awards" in the category of People Management, one of the most prestigious awards in the global postal sector, by combining new technologies and training as the driving forces behind change.

The Company's average staffing levels in 2008 stood at 65,924 employees, in addition to the staff hired for electoral processes in which Correos was involved, equivalent to an additional 167 members of staff/year.

EVOLUTION OF GENDER PROPORTION



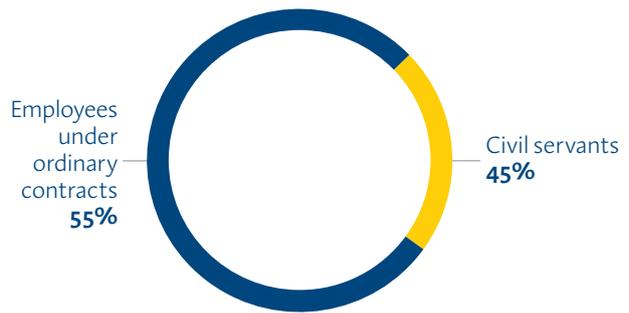
The proportion of permanent employment was 78% of the total. The proportion of employees under ordinary contracts was 55% of the total, and the remaining 45% were civil servants. By gender, men represented 54% and women 46% and the trend towards gender balance continued.

The proportion of permanent employment was 78% of the total.

PROPORTION OF PERMANENT EMPLOYMENT



BREAKDOWN OF STAFF



Consolidation, promotion and mobility

The Second Collective Bargaining Agreement 2006-2008 and the General Agreement for Quality formed the basis for the creation of a comprehensive employment system that contributes towards employment stability and strengthens service quality. As a result, 12,000 people joined the Company as permanent members of staff over the last three years. Of those, 4,826 did so discontinuously (1,707 over the last year).

With regards to professional promotion, 981 team leader positions were awarded, strengthening the operational management structure in post offices, and 19 technology expert posts were awarded following the completion of specialised training. Furthermore, 1,050 internal promotion positions were offered for civil servants, who had the opportunity to enter the Upper, Management, Executive and Auxiliary Postal Bodies.

A total of 95% of vacancies were filled through internal promotion. To that end, 1,127 selection processes were carried out, resulting in 2,339 appointments. The new IT tool, eSelección, used to consult and apply for vacancies online, made a contribution towards streamlining coverage. New members of staff were also provided with access to the welcome and monitoring programme, aimed at facilitating their integration and ascertaining to what extent they are suited to their new post. Participants awarded said programme a score of 9 out of 10.

The permanent transfer selection process, which guarantees the right to employment mobility, resulted in five announcements over 2008 that allowed 3,755 employees to gain horizontal promotion. For those employees, 1,123 moved from being discontinued permanent employees to holding full activity posts.



Correos has been named the 2008 TOP Company to Work For.

■ Training

As part of the Correos Annual Training Plan, 489 courses were offered, equivalent to almost two and a half million teaching hours. A total of 135,486 participants took part, 25.3% more than in the previous year. This represents an average of more than two training actions per employee, equivalent to almost 37 training hours per person.

The educational content of training included issues such as new processes and services, quality management, at-work risk prevention, new technology projects and indicator-based management for middle management. Participants assessed the quality and variety of the courses with a score of more than 8 out of 10.

Training	Online	Other methods*	Total
Courses	128	361	489
Attendees	77,820	57,666	135,486
Training hours	1,556,684	878,281	2,434,965

* Includes classroom-based, remote access and combined method courses.

Online training	2006	2007	2008
Courses	73	67	128
Attendees	39,807	55,158	77,820
Training hours	847,159	1,570,150	1,556,684

The e-learning method allowed training programmes to be rolled out efficiently even though our staff is spread across the whole country. In 2008, 64% of training hours given were through this option, selected by 57% of participants. The number of internal monitors who voluntarily cooperated in their colleagues' training increased to 1,116.

The range of channels available to access online training also increased. The *Campus Virtual Correos* – the space on the Company's intranet for consulting and completing courses – increased the interactive and didactic nature of its contents.

Another channel open to staff was the *Red.es* national telecentres network. In 2008, the Catalan Regional Government's network, *Xarxa de Telecentres de la Generalitat de Catalunya*, was also added to the list of channels available to members of staff after Correos reached an agreement that will benefit its employees in rural areas. Furthermore, as a part of the same agreement, a certain number of members of the public will have access to online courses given by the Company on office automation, the Internet and languages.

The progress made in e-learning has transformed Correos into a reference in Spain and across Europe. The Company has been recognised by the consulting firm Gartner, which chose Correos as a best practice example in the use of information technology. Furthermore, the Company signed a commitment with the Postal Union of the Americas, Spain and Portugal (UPAEP) under which it will provide electronic-based training to members of staff in Latin American postal operators.

In the Correos Centre associated to the UNED (National Distance Learning University), 740 students matriculated last year in courses including Law, Economics, Business Management and Administration, IT and Industrial Engineering.





Collaboration agreement with the Employment and Social Affairs Ministry for the promotion of activities to support mistreated women's return to the world of work.

Pension plan	2007	2008
Participants	38,659	39,948
Correos' annual contribution*	13,169,220	13,427,130
Fund assets*	114,793,380	123,277,405

* In euros

■ The fight against gender violence

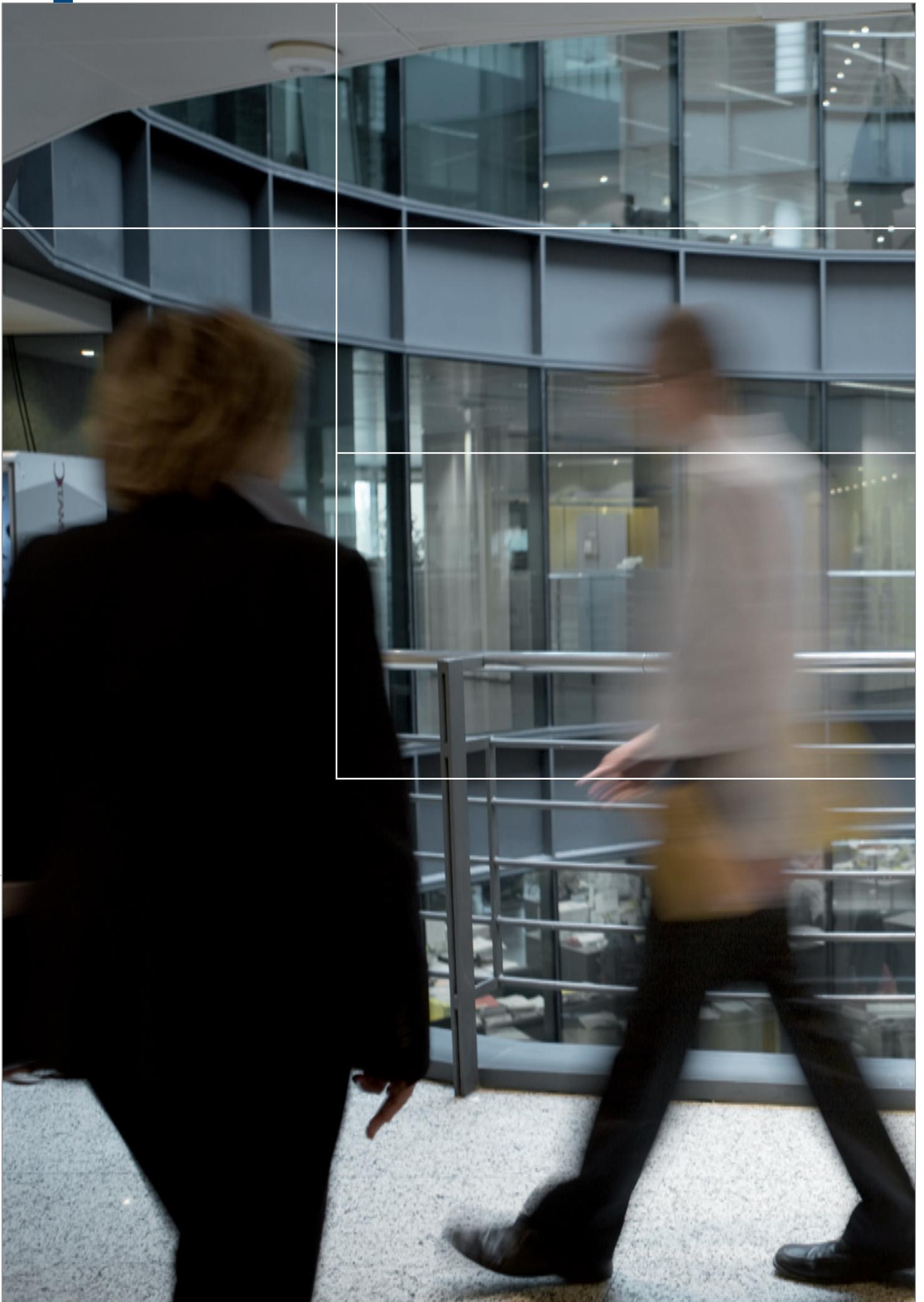
Correos has signed a collaboration agreement with the Employment and Social Affairs Ministry for the promotion of activities to increase awareness in the fight against gender violence and support victims' return to the world of work, as per the guidelines set by the Organic Law 1/2004 and the Agreement approved by the Council of Ministers on the 2 March 2007.

In order to strengthen the actions the Company has been undertaking in recent years, Correos has made a commitment to use its resources to promulgate information on gender violence, support the return of mistreated women to the world of work by offering employment with flexible hours, maintain confidentiality with regards to participants' personal circumstances, and offer individualised and immediate solutions to any affected Correos employees.

■ Pension plan and social action

Correos adds to its employees' retirement benefits with a pension plan into which the Company paid 13.4 million euros last year. At 31 December, there were 39,948 employees in the plan and its total assets were 123.3 million euros, of which 84 million were direct company contributions.

As is the case each year, financial assistance was also awarded for welfare and employment protection schemes for members of staff and their relatives, salary advances and interest-free personal loans were granted to cover specific requirements.



4. Corporate Social Responsibility



Companies are becoming increasingly aware of the advantages of undertaking their activities in an ethical, transparent and socially and environmentally-responsible manner, not only as the best way to ensure their financial viability, but also as the ideal manner of creating links of trust.

Correos has taken on these commitments as the provider of a service that is of general interest, but also as one of the most important companies in Spain in terms of financial dimensions, human resources, the size of its network and the volume of its hiring and investment. These characteristics

place the Company in a relevant social role and instil it with great potential to act on its surroundings.

Thus, integrity, reliability and efficiency are the essential values that drive the committed work of its employees and generate trust among the Company's customers, shareholder and society in general. To gain a better insight into the expectations and demands of these stakeholders, Correos has established and maintains communication channels that allow it to design and prioritise its actions.

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■ Shareholder

Correos is a company that is entirely owned by the State, through the Directorate General for State Assets. The Company supports the generation of value for its shareholder by efficiently fulfilling its public service mission and maintaining its business competitiveness and profitability.

To meet these ends, the Company promotes good corporate governance favouring solid and ethical growth in keeping with the principle of solidarity and strict respect of current market regulations.

Its Code of Conduct contains the values of reference and rules that must be followed, applicable to all of the organisation's actions.

Furthermore, the Internal Audit Unit undertakes a verification and independent information process aimed at identifying and managing risks relevant to the business and evaluating the effectiveness of the Company's control systems.

EXCERPT OF THE CODE OF CONDUCT

1. Professional conduct.

Those covered by the Code should focus on the optimal realisation of their functions within the Company and will at all times display upstanding, impartial and honest professional conduct in keeping with the Group's corporate social responsibility principles. They will refrain from using business opportunities of interest to the Group for their own benefit.

Stakeholder

Shareholder

Communication channels	<input type="checkbox"/> General Meeting <input type="checkbox"/> Reporting to Directorate General for State Assets
Correos' objectives	<input type="checkbox"/> Value generation by business efficiency <input type="checkbox"/> Ethical conduct <input type="checkbox"/> Good corporate governance



■ Employees

Correos promotes stable, quality employment, professional training and development, and employee assistance and protection (see the “Employees” chapter).

With regards to this last aspect, the Company constantly updates its preventative and security policies for all of its facilities in order to avoid placing employees and members of the public in situations of risk. One of the measures adopted last year was the incorporation of anti-fatigue surfaces in automated processing centres in order to

improve ergonomics and the protection afforded to staff undertaking sorting tasks.

Correos is a signatory of the “European Road Safety Charter”, an initiative launched by the European Commission’s Directorate General for Energy and Transport, the objective of which is to prevent and reduce road accident rates. In applying this initiative, a rule book was drafted with measures to reduce the risk of accidents. This rule book was provided to employees and transport service providers. Employees also took part in 16 Safe Driving courses given by the RACC (Royal Catalan Automobile Club).

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Stakeholder	Employees
Communication channels	<input type="checkbox"/> Corporate Intranet <input type="checkbox"/> <i>Abrecartas</i> magazine <input type="checkbox"/> Internal notes
Correos’ objectives	<input type="checkbox"/> Stable and quality employment <input type="checkbox"/> Safety and health at work <input type="checkbox"/> Training and professional development <input type="checkbox"/> Employee assistance and protection



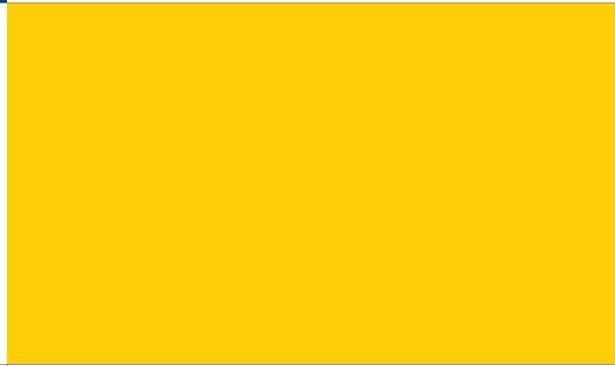
The Company's employment protection measures are complemented by annual contributions to a pension plan and social action programmes. These include financial benefits to offset healthcare treatments, education expenses, care for children with disabilities, and salary advances and interest-free loans to tackle other priority requirements.

Correos pays special attention to improving the life-work balance and applies the social measures contained in the *Concilia* Plan, relating to paid leave, reduced working hours and voluntary leaves of absence. Likewise, the Company develops

programmes to assist in the fight against gender violence and to combat gender-based employment discrimination, in accordance with the objectives of the Equality Law.

The Photography and Letter-Writing Contests for employees is a way of stimulating creativity and favouring the development of cultural activities within the Company. A total of 212 texts and 887 images were submitted in this, the 11th edition of the contest. Furthermore, a special prize was created for environmentally-themed pieces in light of *Expo Zaragoza 2008*.

Social action programmes	Recipients	Payments (in euros)
Social welfare	5,065	697,996
Care for children with disabilities and education expenses	5,716	878,970
Leisure, cultural and sporting activities	1,803	355,602
Homages to retired workers	-	143,786
Salary advances and interest-free loans	4,333	17,299,900

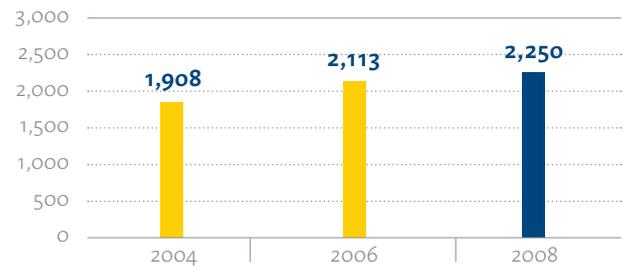


■ Customers

The Company's commitment to its customers is another facet of Correos' responsible behaviour. Through nationwide coverage, personalised care and a complete range of products, the Company aims to satisfy all communications and business requirements with the best possible service.

Likewise, Correos works to reach improved levels of quality every year, through the development of infrastructure, improved technology, process automation, training and efficient management.

**INCREASE IN THE POST OFFICE NETWORK'S ACCESSIBILITY
EVOLUTION OF POST OFFICES NUMBER**



Stakeholder

Customers

Communication channels

- Nationwide service points network
- Online post office
- Customer service helpline
- Customer satisfaction surveys
- Más Cerca* magazine
- Complaints and claims service
- Trade fairs and other forums
- Advertising

Correos' objectives

- Accessibility and quality
- Customer satisfaction
- Specialised range of services



Correos introduced sustainability as one of its corporate values and created the Environment Committee.

Society

The Company develops and collaborates in initiatives that contribute to the integration, education and care of underprivileged groups in society and the protection of natural resources.

ENVIRONMENTAL SUSTAINABILITY

In 2008, Correos introduced sustainability as one of its corporate values and created the Environment Committee. This body drafted the 2008-2010 Excellence Plan, which sets out the Company's policy and lines of action, the systems for measuring its activities' impact, and the training and awareness activities for employees. The Committee is responsible for periodically revising

the plan in order to adapt it to meet the following objectives:

- Increase eco-efficiency and reduce emissions.
- Standardisation of processing and recycling waste.
- Incorporation of environmentally-friendly materials and processes into the Company's range of services.
- Unification of existing environmental management models and the extension of certifications in accordance with ISO 14001 standard to the 17 automated processing centres and 17 main offices.

Stakeholder

Society

Communication channels

- Annual report
- Website
- Press releases
- Discussion groups and forums
- National and international partnerships and projects

Correos' objectives

- Protection of human rights
- Child support
- Integration of marginalised groups in society
- Environmental sustainability



ADMISSION	PROCESSING	TRANSPORT AND DISTRIBUTION
POST OFFICES	AUTOMATED PROCESSING CENTRES	DELIVERY UNITS
ISO 14001 CERTIFICATION "LÍNEA VERDE" SUSTAINABLE PACKAGING MOBILE TELEPHONES COLLECTION CAMPAIGN	ISO 14001 CERTIFICATION PROCESSING AND RECYCLING WASTE	ELECTRIC VEHICLES (CO ₂ EMISSION FREE, DECREASING NOISE POLLUTION)

These guidelines are not only applied to the Company's own activities, but also to the agreements and contracts it signs with suppliers and technological allies, as the Parent Company has voluntarily signed into the Spanish Government's Green Public Procurement Plan.

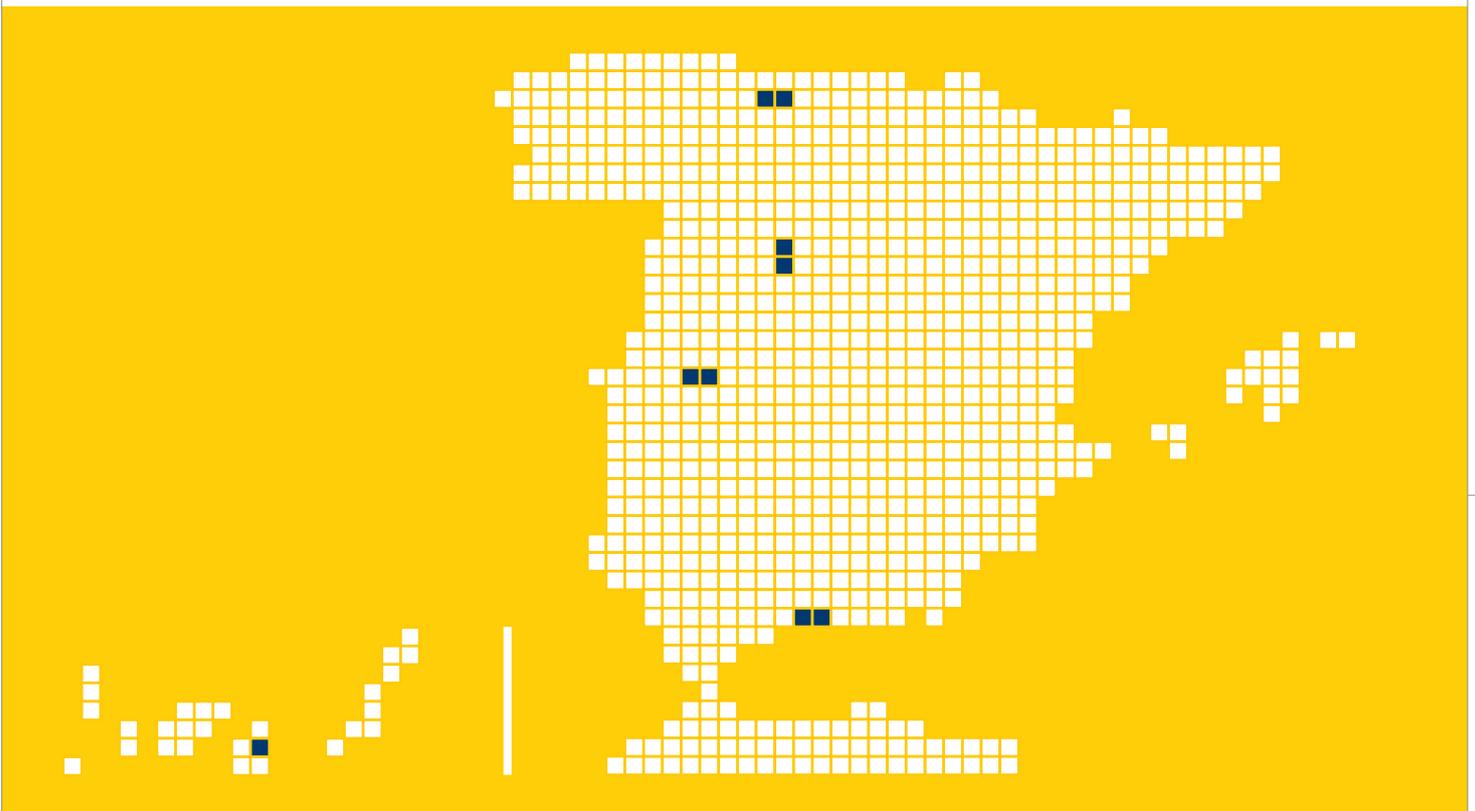
For that reason, it introduced new criteria into its procedures to assess which tenders are most environmentally-friendly and whose actions strengthen the protection of children, the integration of marginalised groups in society and the eradication of gender inequality and violence.

The Company also adopted the International Post Corporation's recommendations on the reduction of emissions, paper and energy consumption, in addition to its Environmental Measurement and Monitoring System for the measuring of the environmental impact of postal operators. The aforementioned system is based on international standards such as the Greenhouse Gas Protocol, the Dow Jones Sustainability Index and the FTSE4Good.

Since the Company voluntarily purchased Euro-4 model trucks in 2006 to meet European Union requirements, Correos has been incorporating means of transport that contribute towards generating less CO₂ and decreasing noise pollution.



REFORESTATION THROUGH THE AGREEMENT BETWEEN CORREOS AND THE *BOSQUES DE LA TIERRA* FOUNDATION



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In 2008 the Company began a pilot project to assess the efficiency of electric vehicles for delivery tasks: vans in the Madrid, Zaragoza, Barcelona and Seville urban areas, and bicycles in pedestrian areas and historic city centres in Madrid, Zaragoza, Granada, Ciudad Real and Toledo. This type of measure will be introduced for delivery units with low mail volumes and which cover large distances between delivery points.

Emissions reductions are linked to the rational use of transport. That is why the Company gave efficient driving courses to its employees and continued with preventative maintenance and fleet renewal initiatives, in which 34 million euros have been invested over the last three years.

Correos also offsets its environmental footprint by contributing to the reforestation of Spain. To do so, it has established and maintains an agreement with the *Bosques de la Tierra* Foundation, through which part of the sales of Correos' "*Línea Verde*" (Green Line) sustainable products, are used for this purpose.

Through this initiative, Correos has contributed towards the reforestation of almost 45 hectares in Benalmádena (Málaga), Alto Clamores (Segovia), Carreña de Cabrales (Asturias), Cañamero (Cáceres) and, in 2008, in Vega de San Mateo (Gran Canaria). In fact, the island of Gran Canaria, which suffered

heavily from a forest fire in 2007, was selected by the Company's employees, who also acted as volunteers in the replanting work. With the additional collaboration of *FORESTA* (The Canary Island Reforestation Foundation), 8 hectares were replanted in the Cortijo de Los Navarro estate, which is part of the *Red Canaria de Espacios Naturales Protegidos* (Canary Islands Protected Natural Spaces Network).

Correos post offices distributed posters informing about the project "*Plantemos para el Planeta: campaña de los mil millones de árboles*" (The Billion Tree Campaign) launched by the United Nations Environment Programme. Its objective is to plant at least a billion trees each year across the globe in order to fight climate change and the loss of biodiversity.

For the second year, the Company participated in the "*Dona tu móvil*" mobile telephones donation campaign organised by the Spanish Red Cross and the *Entreculturas* Foundation, by providing bags for the public to put their used phones into so they could drop them off in letter-boxes or post offices. The handsets are then recycled and destroyed in a controlled manner, or repaired for reuse or sale, contributing to financing social and environmental projects run by both bodies.

Correos sponsored and participated in *Expo Zaragoza 2008*.

EXPO ZARAGOZA 2008

Correos sponsored and participated in *Expo Zaragoza 2008*, an international exhibition dedicated to “Water and Sustainable Development”. Under the slogan “*Un mecanismo perfecto, un mundo de servicios*” (A perfect mechanism, a world of services), the Correos pavilion presented the efficiency, quality and innovation of its postal services, as well as programmes aimed at supporting sustainability to more than one million visitors.

The Correos area included a post office and an exhibition area composed of five zones:

- The “river of letters”, with texts from famous writers.
- The “waterwheel”, powered by the river, representing the different processes in the postal chain.
- A structure composed of conveyor belts carrying trays, driven by the waterwheel, which explained the different phases involved in handling mail items.
- The “forest” which surrounded the pavilion and in whose trees the visitors could leave messages.
- The “*Línea Verde* corner” where environmentally-friendly packaging and electric vehicles were displayed.



Virtual games, interactive stalls where stamps could be designed, audiovisual areas with information on the Company, and pieces from the Postal and Telegraph Museum were also available.

Furthermore, the Company's pavilion also featured a children's party from the "Correos reparte sonrisas a los niños" (Correos delivers smiles to children) programme, and received visits from its employees and staff from the foundations and special centres with which Correos works. To celebrate the day of honour, the Company announced that the next forest it plants will be located in the province of Zaragoza.

As part of its role as sponsor, Correos marketed *Expo Zaragoza 2008* with numerous commemorative stamps (see "Philately" chapter) and included the event's logo on its vehicles.

SOCIAL ACTIONS

The Company aims its social development programmes at three priority groups in society: children, people with disabilities and immigrant communities.

As a partner of the *Fundación Empresa y Sociedad* (Business and Society Foundation), whose objectives include social and employment integration, the Company participates in its *Empresa y Discapacidad* (Enterprise and Disability) and *Empresa e Inmigración* (Enterprise and Immigration) programmes.

Correos has also been a member of the United Nations Global Compact since 2002. It recognises the Pact's ten principles (relating to human and employment rights, the environment and the fight against corruption) as an integral part of its strategy and publishes a progress report annually. In 2008, the Company joined the commemoration of the 60th anniversary of the Universal Declaration of Human Rights, and advertised the anniversary on its website with links to the United Nations website.

Furthermore, Correos promotes the Millennium Development Goals through the Development Cooperation Action Group, part of the Universal Postal Union.



Correos worked with the Health Ministry's information campaign on the harmful effects of drugs.

CORREOS SOCIAL PROGRAMMES OBJECTIVES

	PROTECTION OF HUMAN RIGHTS	CHILD SUPPORT	INTEGRATION OF PEOPLE WITH DISABILITIES	IMMIGRANT COMMUNITIES ASSISTANCE	PROMOTION OF CULTURE
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Within Spain itself, the Company works with the Health Ministry's information campaign on the harmful effects of drugs. The Company's post offices distributed almost 320,000 copies of a guide published by the Government Delegation for the *Plan Nacional sobre Drogas* (National Drugs Plan).

Last year, the Company invested funds in different activities undertaken by the Spanish Fundraising Association, formed by the main national non-governmental and not-for-profit organisations, whose purpose is to inform and raise awareness among society, fundamentally by means of direct marketing.

Other activities undertaken in 2008 consisted of:

- The donation of 232 sets of computer equipment to not-for-profit organisations for uses in IT rooms and workshops.

- Commemoration of World Diabetes Day through the illumination of the main building in Granada, an initiative in which more than 500 emblematic sites across the world took part.
- The collection of 700 kilograms of non-perishable food by the employees of Zaragoza, for the "*Operación sana*" (Healthy Operation) campaign by the *Hermandad de Donantes de Sangre* (blood donation group).
- Sponsorship of the annual Asian Development Bank meeting held in Madrid, which promotes economic and social growth in Asian and Pacific countries through loans and technical assistance.



CHILD SUPPORT INITIATIVES

“*Correos reparte sonrisas a los niños*” (Correos delivers smiles to children), designed to educate and defend childhood, is one of the Company’s best consolidated programmes. It is based on applying the “laughter therapy” method and is undertaken in collaboration with the not-for-profit association “*Payasos sin Fronteras*” (Clowns Without Borders) and a further 19 bodies specialised in healthcare, fostering and special education.

The programme aims to improve the quality of life of hospitalised children, youth with disabilities and the children of immigrants and incarcerated mothers, who require psychological and emotional support.

In 2008, parties were held in 22 hospitals and another 18 centres and were enjoyed by 4,100 children. These celebrations featured comedy shows and were attended by well-known people.

“Correos delivers smiles to children” programme (1999-2008)

Children participating	25,000
Children’s parties	275
Educational workshops	125
Workshops attendees	2,000
Pupils participating in exchange of letters	2,700,000

Other parts of the programme include educational workshops. A total of 158 people took part in the 12 courses held last year, including volunteers and hospital and special education staff. As on previous occasions, the Company facilitated the exchanging of letters between hospitalised children and the pupils of different schools, providing them with postage materials free of charge.

As part of the celebration of the 20th anniversary of the Convention on the Rights of the Child, the campaign “*Correos y UNICEF, unidos por la infancia*” (Correos and UNICEF, united for childhood) was launched, aimed at increasing social awareness. The Convention was published on UNICEF and Correos’ websites and 12 million informational leaflets were sent to Spanish households inviting them to visit these sites and read the Convention. The leaflets also included response sections that members of the public interested in the work undertaken by this organisation could deposit in letter-boxes and post offices.

The post office network also took part in other projects in support of children:

- The “*Un juguete, una ilusión*” (One toy, one thrill) campaign organised by *Radio Nacional de España* (Spanish National Radio) and the *Crecer Jugando* (Play and Grow) Foundation, for which 200,000

The Company joined the celebration of the 20th anniversary of the Convention on the Rights of the Child.

solidarity pens were put on sale. The joint collection of three million euros allowed 500,000 toys to be delivered to children in 22 countries in Africa, Latin America, the Middle East and Asia.

- The marketing of UNICEF products, such as Christmas cards and lottery tickets supported that organisation's work.
- The Spanish Red Cross' "*Sorteo del Oro*" prize draw, for which 346,160 tickets were put on sale, helped to finance humanitarian projects.
- Information campaigns for the NGO *Aldeas Infantiles SOS* (SOS Children's Villages), undertaken in Seville and Zaragoza post offices, among others, which provided information on the NGO's work supporting children and young people in social risk situations.
- "*12º Rastro de juguetes*" (12th Toys Flea Market) from Intermón Oxfam, in which the Zaragoza post offices took part by collecting toys and children's books for sale. In this way they helped to finance the programme this organisation is undertaking to support Sudanese refugees.

The online post office, for its part, marketed solidarity postcards from Doctors Without Borders and ACNUR. The Correos Centre associated to the UNED (National Distance Learning University)

collaborated in the collection of almost 400 kilos of educational materials in the "*1ª Campaña pro-bibliotecas comunales para el Perú*" (1st Campaign in Support of Local Libraries in Peru).

SOCIAL AND EMPLOYMENT INTEGRATION

The Company supports social and employment development for people with physical, mental and sensorial disabilities through purchases and collaboration agreements with foundations and special employment centres and through donations to different bodies for sponsoring training.

The 2008 report issued by the Business and Society Foundation Observatory placed Correos second in terms of volume of purchases from occupational training centres, at an amount equivalent to 315 indirect jobs.

These organisations undertake cleaning, repairing and sorting tasks for postal equipment, preparing new stamps issues for subscribers to the philatelic service, prepare corporate gifts, and handle and/or transport mail. Some of their employment centres are also companies that work with the Parent Company, such as Ibermail (part of the *Juan XXIII* Foundation), Gupost and *Ginesta* Foundation.

Correos contributed financially to the construction and repair of facilities in *Nido and Prodis* Foundations, and was one of the sponsors of the Spanish race in the “2008 European Cup for Disabled Cycling”, before the Paralympic Games in Beijing.

The Company guarantees access to its online services to all members of the public. Therefore, the online post office and the BanCorreos website have been designed to conform to Level A of the W3C Web Content Accessibility Guidelines 1.0, which make them easier to use for people with limited sight, mobility or text comprehension.

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Main foundations and special employment centres with which the Company works

- Carmen Pardo-Valcarce Foundation
- Ocón Business Centre
- Juan XXIII Foundation
- Realiza Foundation
- APAI Foundation
- Gupost
- Ginesta Foundation

INTEGRATING IMMIGRANTS

The Company collaborates with the Spanish Red Cross in the social skills for employment training programme “*Correos: De la A a la Z para Inmigrantes*” (Correos A to Z for Immigrants) which was held in 6 different locations last year.

The Company also contributed towards financing the activities of *Migrar* (Migrate) Foundation, of the Red Cross, and its website www.migrar.org, which provides advice to foreigners working in Spain or who wish to work in Spain in the future. The website includes information on the abovementioned courses and on the services provided by Correos that might be of most use to them.

The fourth year of the annual photographic contest organised by Correos and Western Union was held under the slogan “*Inmigración y mujer. Apuesta por la igualdad*” (Immigration and Women: Betting on equality). The prize-winning images, chosen from more than 1,700, will be displayed in the Madrid, Valencia and Barcelona headquarters throughout 2009.

“Correos A to Z for Immigrants” programme (1999-2008)

Attendees	4,700
Courses	291



In the “*Feria de Productos y Servicios para Inmigrantes, Integra*” (Fair of Products and Services for Immigrants, Integra) and in the “*II Feria de las Américas en España*” (2nd Fair of the Americas in Spain), the Company presented the services it offers that are especially adapted to the needs of this group in society, including the sending of international mail and parcels, money transfer and other financial and telecommunications services. Correos also sponsored the second year of the “*VivAmerica Festival*”, an event which seeks to promote cultural exchanges between Spain and Latin America.

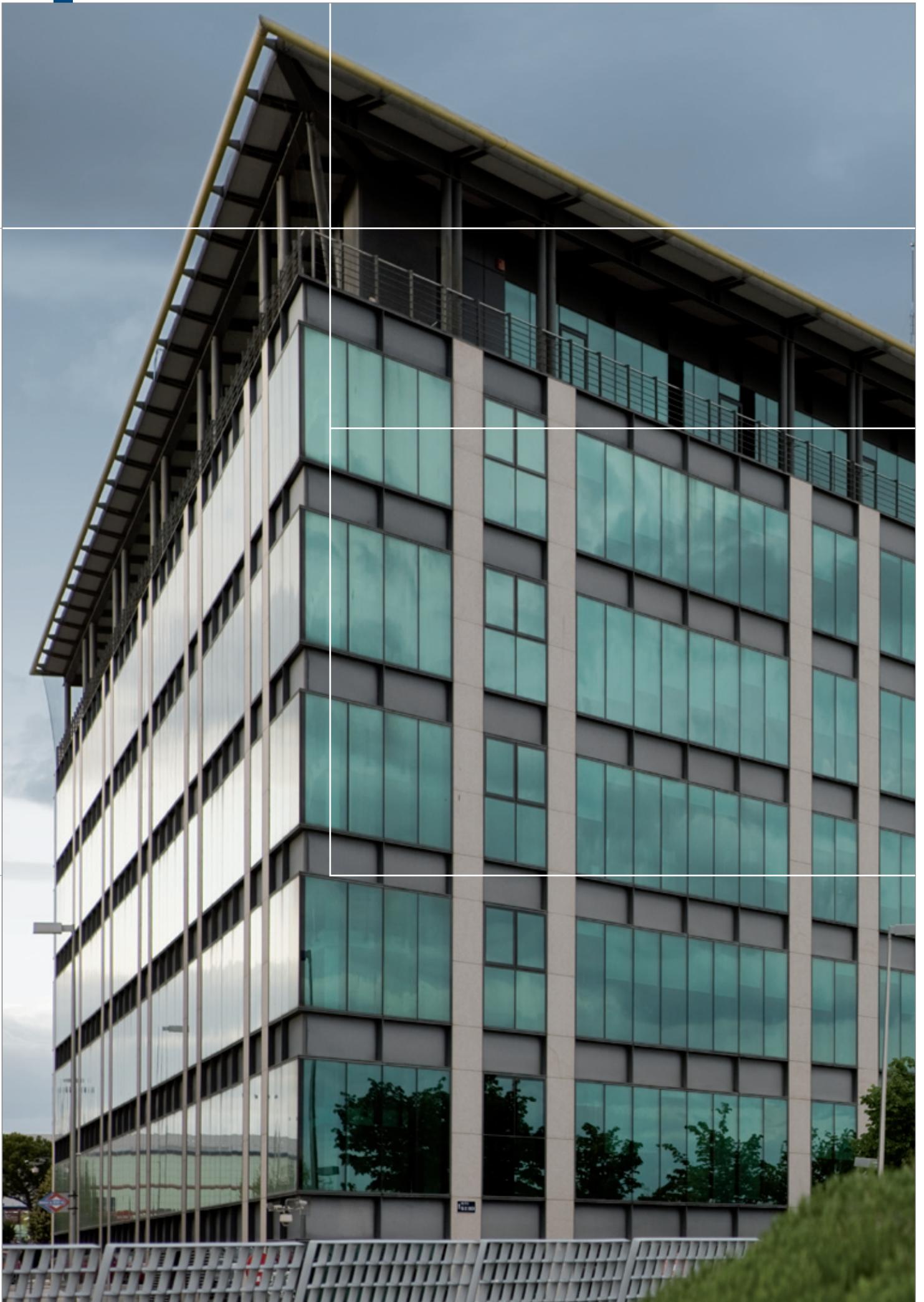
SUPPORTING CULTURE

Correos has a long tradition of supporting Spanish cultural and historical heritage, fundamentally through philatelic activities. As part of the agreement signed with the Spanish National Heritage Body for the promulgation of the items in its collection, stamps and pre-franked cards with this topic were issued, information was made available on exhibitions, concerts and visits to Royal Sites, and postal services were provided to National Heritage sites.

The Postal and Telegraph Museum released a post office van and railway wagon, which had been restored the previous year, for display during four touring exhibitions which visited Aragon, Castilla-La Mancha, Madrid and Navarre.

As part of the “*Correos por el Arte*” (Correos for Art) initiative, different post offices hosted painting, sculpture, ceramics, photography and tapestry exhibitions of local artists and employees’ work. The Valencia headquarters also hosted an exhibition from Spanish writer Vicente Blasco Ibáñez, coinciding with the 75th anniversary of the transfer of his remains to the city. To celebrate the Granada International Poetry Festival, 120,000 post cards were distributed featuring a poem by Claribel Alegría.

The *Compostela Monumental* Association awarded the Company a prize for its work in restoring postal establishments located in historical buildings, recognising the exemplary restoration undertaken in the Company’s main headquarters in the historic city centre of Santiago de Compostela.



5. Correos Group subsidiaries



Chronoexpres

Chronexpres is Correos Group's subsidiary specialising in providing express domestic and international parcel delivery services.

Its range of services includes solutions for urgent shipments with set delivery times for documents and parcels, such as "Chrono 10", "Chrono 14" and "Chrono 24". It also offers tailor-made products, such as mailbag collection, especially suitable for companies with national networks;

"Multichrono", which has added values including document management, reverse logistics and the replacement of technical equipment; and specific services for different sectors of activity.

The Company also provides high quality international services with access to global distribution networks, via alliances with European and global companies.

CHRONOEXPRES SERVICES

	PRODUCTS WITH SET DELIVERY TIMES	"MULTICHRONO"	TAILOR-MADE SOLUTIONS	PREPAID PRODUCTS	INTERNATIONAL SERVICES
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The Company introduced new technologies in the management of databases that increased availability and security.

■ Resources

Chronoexpres covers the entire country through a complete network of infrastructure and resources, formed by 53 operating centres, more than 105,000m² of warehouse space, almost 2,000 vehicles and 2,112 distribution routes.

The subsidiary's staffing levels increased to 1,301 in 2008. It applied scaling plans in its Madrid, Barcelona, Girona, Málaga, Córdoba, Granada, Murcia, Zamora and Alicante centres in order to ensure that its resources meet operating requirements. It also increased training actions by 31.3%. These actions involved 45% of staff, 24.4% more than the previous year.

Resources	2008
Employees	1,301
Operating centres	53
Distribution routes	2,112



■ Activities

The Company completed its logistics standardisation project with the reorganisation of the north-western quadrant of the collection network and the distribution routes in Valencia, Palma de Mallorca, Jaén, Asturias, Zaragoza, Navarre, Huesca, Murcia, Huelva, Granada, Ourense, Segovia and A Coruña.

Likewise, it restructured its activities in Andalusia with the closure of the Jaén agency and the concentration of operations in the logistics platform located in said province, reducing costs and increasing synergies.

The Company introduced new technologies in the management of databases that increased availability and security. The advances in internal control systems included the introduction of web delivery notice model, new PDA devices for tracing items and a customer notification model, using SMS, on incidents affecting deliveries.

Furthermore, the subsidiary renewed its quality certification in line with the ISO 9001 standard and improved the delivery times of its main products, “Chrono 10”, “Chrono 14” and “Chrono 24”.

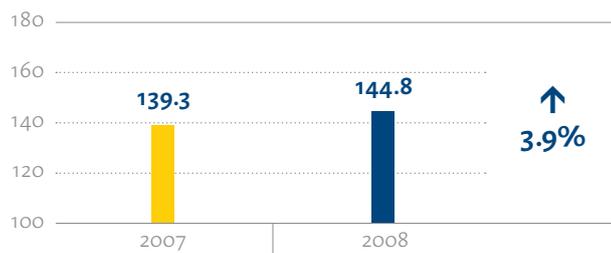
Delivery quality	2007	2008
“Chrono 10”	90.3%	91.8%
“Chrono 14”	90.6%	92.3%
“Chrono 24”	93.5%	94.1%



Result before tax reflected a profit of 1.0 million euros.

NET TURNOVER

In millions of euros



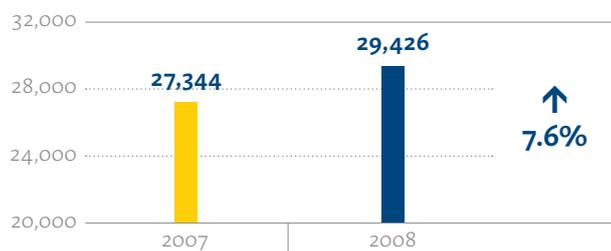
RESULT BEFORE TAX

In millions of euros



PARCEL VOLUMES

In thousands



Performance

Last year Chronoexpres increased its parcel volumes by 7.6%, reaching 29.4 million. The services which saw the largest increases were mailbag collection, 12.2% and "Chrono 24", 14.0%.

Its turnover increased to 144.8 million euros, an increase of 3.9%, thanks to attracting new customers.

The application over recent years of the rationalisation plan made it possible to achieve an operating result of 1.5 million euros. Result before tax reflected a profit of 1.0 million euros, growth of 8.1 million euros compared to 2007.

Correo Híbrido

Correo Híbrido is the Correos Group's subsidiary specialised in integral management of corporate mass communications.

The services it offers include all the services necessary to cover each phase of the production cycle: information processing, the design and printing in different formats, the creation of dynamic documents, enveloping and sorting, and, finally, the deposit of these deliveries with the Correos, responsible for postal distribution across Spain.

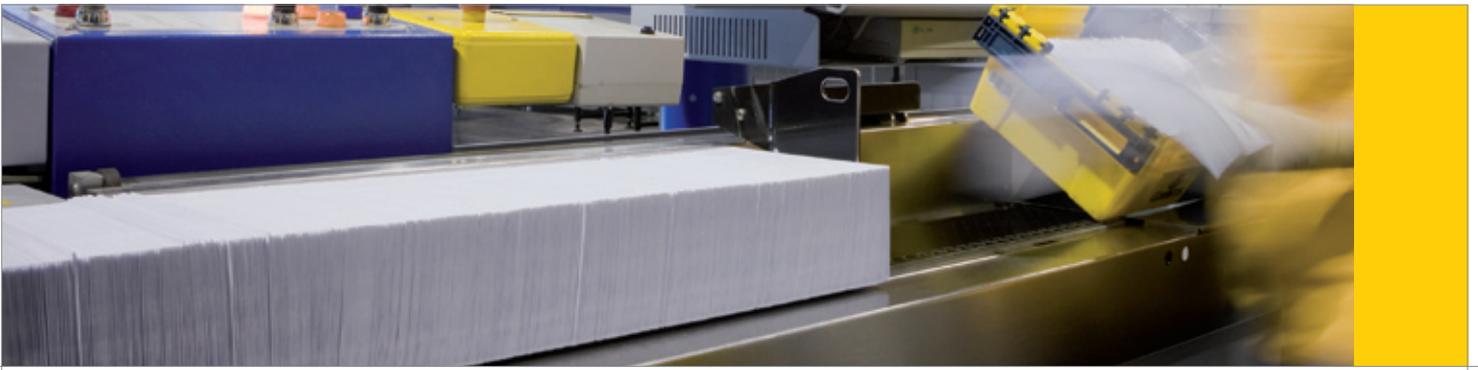
It also has range of electronic solutions that include the digitalisation and saving of data, digital storage and custody, secure electronic transactions, mail tracking, automatic reply and returned mail handling, and various reverse hybrid mail options.

The www.correohibrido.es website allows real time access to information on the status of mailings in each step of the process.

Other advantages offered by Correo Híbrido include its availability (24 hours a day), high quality and specialisation and the use of the latest technologies. Thanks to these elements, the subsidiary's customers can obtain improved efficiency in their processes and flexibility in the costs.

CORREO HÍBRIDO SERVICES

	DOCUMENT CONSULTANCY AND DESIGN	PRINTING AND ENVELOPING	SORTING AND DEPOSIT	FULLFILLMENT	ELECTRONIC SERVICES
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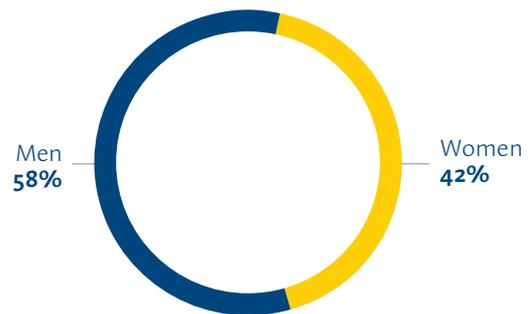


The new centre located in Sant Boi de Llobregat (Barcelona) came into operation.

PROPORTION OF PERMANENT EMPLOYMENT



GENDER PROPORTION



Resources

In 2008, the subsidiary began a plan designed to regroup all of the activities undertaken in its three Madrid centres. After leaving Alcobendas facility, the project will be completed in 2009 with the definitive transfer of all operations to a single site.

Furthermore, the new centre located in Sant Boi de Llobregat (Barcelona) came into operation, receiving an investment of 1.7 million euros. This facility, designed specifically to meet the needs of Catalonia and its area of influence, as well as to provide a back-up centre for operations, contributed to reducing distribution and transport times.

Thus, at the end of the year, the Company had three operating centres (two in Madrid and one in Barcelona), with a total area of 8,400 m² of warehouse space used for production and storage. In total 5.2 million euros were invested in extending and renewing equipment over the course of the year.

The subsidiary increased its average staffing levels by 21.6%, reaching 220 employees, with a 22% increase in permanent recruitment. The staff was composed of 58% men and 42% women, respectively.

■ Activities

Correo Híbrido increased its digitalisation solutions with new options for the generation, storage and custody of documents. These services, along with the printing of an integrated receipt on the envelope, were, once again, among the most sought after features. The subsidiary attracted a wide range of financial services companies and government bodies to its list of customers.

Likewise, it continued to prepare and print deliveries of products marketed on the Parent Company's online post office, including "Correo digital" (Digital mail) and "Tu Sello" (your stamp).

Activity	2007	2008
Mail items handled	364.8	407.3
Printed items	824.2	799.0
Digitalisations	10.2	18.7

In millions

■ Results

The number of mail items handled in 2008 increased by 11.7% and the number of digitalisations by 82.8%, while printed items decreased by 3.1%.

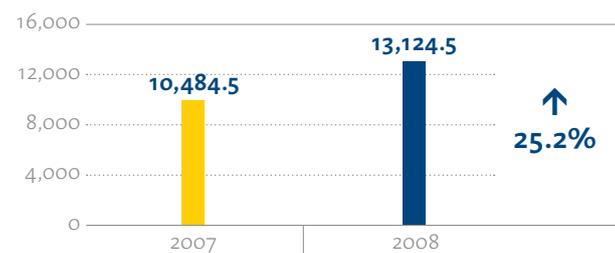
Turnover stood at 13.1 million euros, 25.2% more than in 2007. Result before tax reached 317.6 thousand euros, 42.1% less than the previous financial year.



The number of digitalisations increased by 82.8% and the mail items handled by 11.7%.

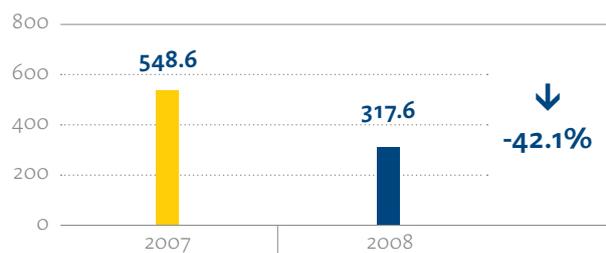
NET TURNOVER

In thousands of euros

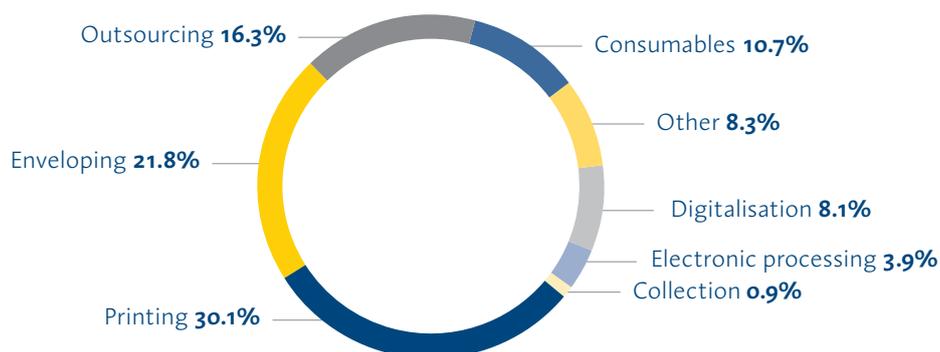


RESULT BEFORE TAX

In thousands of euros



REVENUES BY AREA OF ACTIVITY



Correos Telecom

Correos Telecom is the company within Correos Group responsible for managing the telecommunications network of the Parent Company, to which it provides services on a preferential basis. It is also responsible for promoting the sale of network's surplus capacity to third parties and supplying other telecommunications solutions.

Its portfolio of assets includes leasing of dark fibre optic network, rights to use pipelining, the provision of high capacity data circuits, leasing for the collocation of communications stations and technological consulting.

Its list of customers include telecommunications operators, government bodies, the media and, in general, companies with high data transmission requirements.

■ Activities

Within the scope of managing the Parent Company's national network, the subsidiary contributed to the introduction of new security infrastructure for the transmission of data and to increasing communications capacity in 90% of operating centres.

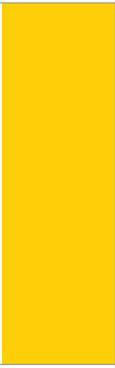
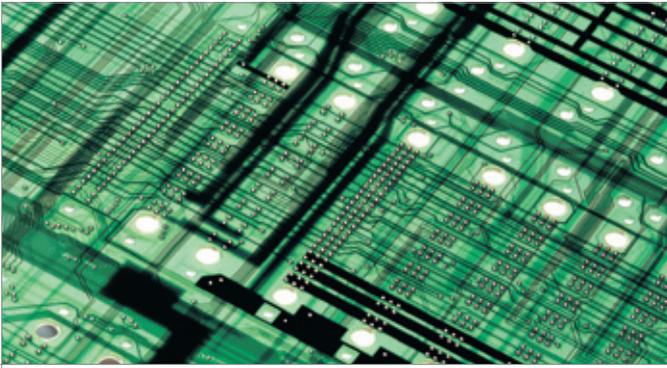
It also provided technical support to the Parent Company to install back-up IT solutions in 300 units and install communications in 273 newly created units.

Management of Correos' telecommunications network 2008

Centres	2,775
Data circuits	3,519
Voice circuits	4,986
Telephone lines	8,519
Data hardware	3,519
Switchboards	116

CORREOS TELECOM SERVICES

	MANAGEMENT OF CORREOS' TELECOMMUNICATIONS NETWORK	TECHNOLOGICAL CONSULTING	DATA AND VOICE CIRCUITS	FIBRE OPTIC NETWORKS	TELECOMMUNICATIONS INSTALLATION AND INGENIERING SERVICES
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Correos Telecom boosted the range of high capacity data circuits.

The company participated in other projects for the Parent Company, such as:

- The development of the “*Apartado postal electrónico*” (electronic P.O. Box) (see the “Online services” chapter).
- The optimisation of business systems, such as *SGIE* and *IRIS 6* (see the “Technological innovation” chapter).
- The design of wireless solutions to improve the connectivity of IT devices (PDA-type portable terminals) used by delivery staff.

With regards to the marketing of telecommunications assets, it boosted the availability of high capacity data circuits, both for companies and government bodies, and increased the leasing sites services to new customers, such as radio and DTTV broadcasters, and WiFi technology suppliers.

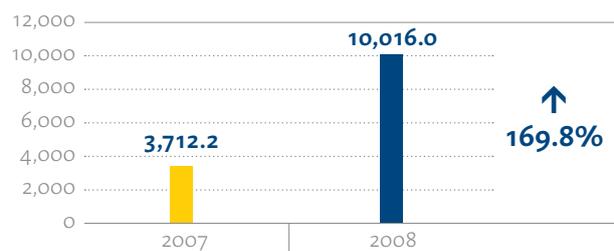
■ Results

Turnover reached 10.0 million euros, an increase of 169.8% over the previous year.

Result before tax reached 152.9 thousand euros, 62.7% lower than in 2007.

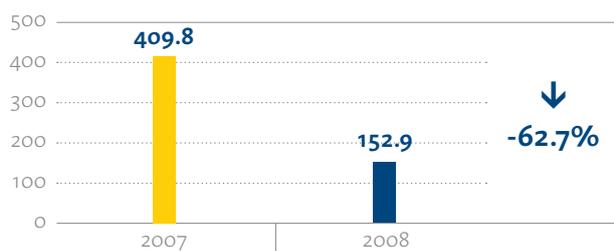
NET TURNOVER

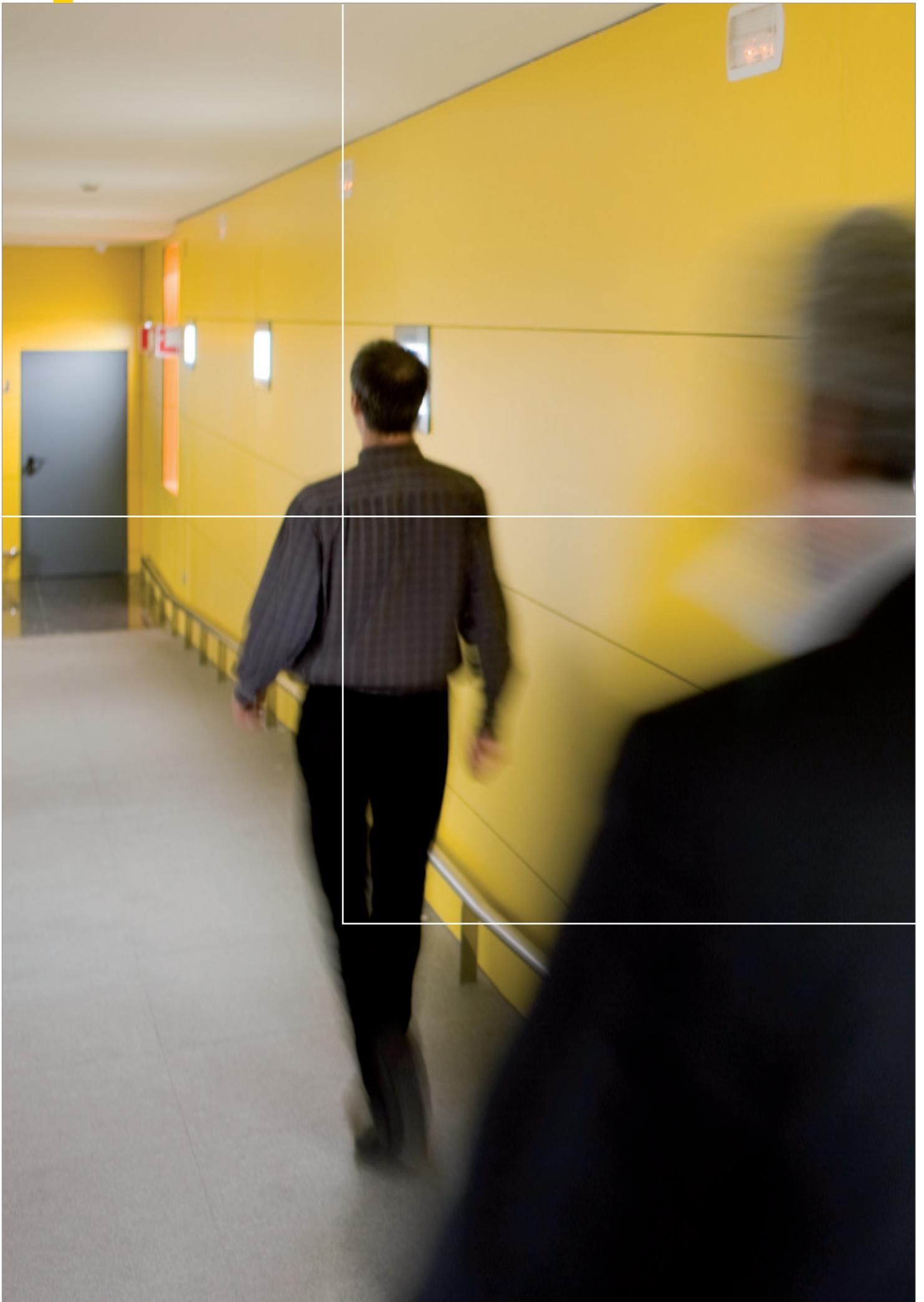
In thousands of euros

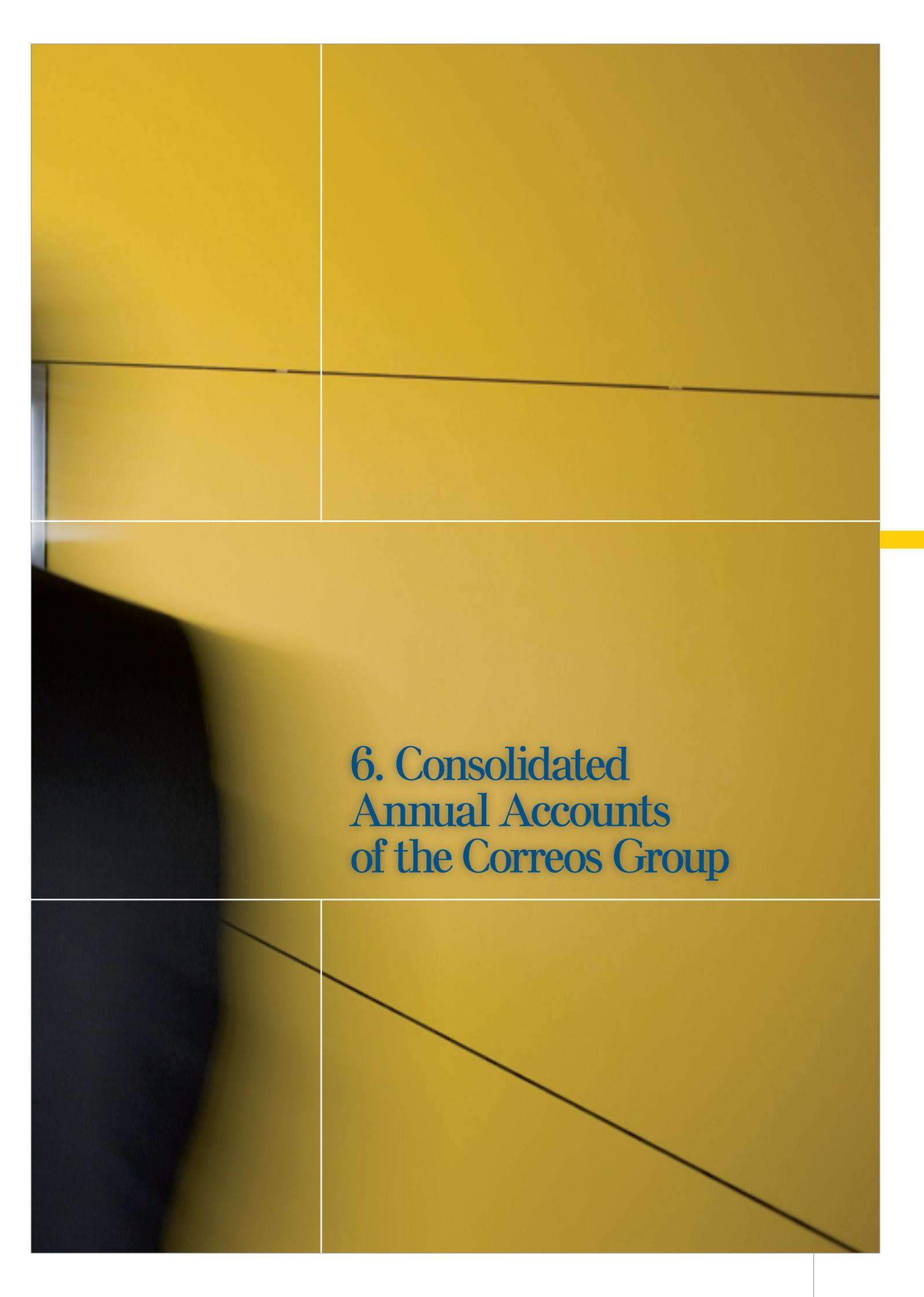


RESULT BEFORE TAX

In thousands of euros







6. Consolidated Annual Accounts of the Correos Group



KPMG Auditores S.L.
Edificio Torre Europa
Paseo de la Castellana, 95
28046 Madrid

Auditors' Report of the Consolidated Annual Accounts

To the Single Shareholder
of Sociedad Estatal Correos y Telégrafos, S.A

We have audited the consolidated financial statements of Sociedad Estatal Correos y Telégrafos, S.A. (the Company) and its subsidiaries (the Group). The said statements comprise the consolidated balance sheet as at 31 December 2008, the consolidated profit and loss account, the statement of changes in the consolidated net assets, the consolidated cash flow statement and the consolidated annual accounts report for the financial year 2008, the preparation of which is the responsibility of the Company's Directors. Our responsibility is to give an opinion on the aforementioned consolidated financial statements as a whole based on the work carried out in accordance with generally accepted accounting standards, which require the examination, by means of selective tests, of evidence relevant to the consolidated financial statements and the evaluation of their presentation, the accounting principles that have been applied and the estimates made.

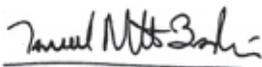
The attached consolidated annual financial statements for the 2008 financial year are the first prepared by the Company's Directors applying the changes made to company law by the Law 16/2007, of 4 of July, the new Spanish GAAP approved by Royal Decree 1514/2007 and the temporary regimen included in said Royal Decree. Moreover, in accordance with the stipulations of section 1 of the fourth temporary item of the Royal Decree 1514/2007, these consolidated annual financial statements are considered initial consolidated annual financial statements and therefore do not include comparative figures. The consolidated balance sheet and the consolidated profit and loss account featured in the consolidated annual financial statements approved for the 2007 financial year are attached in note 22 of the consolidated annual accounts report "Aspects deriving from the transition to the new accounting regulations". These two documents were prepared applying the accounting and company regulations in force at the time. An explanation of the main differences between the accounting criteria applied in previous financial years and currently has also been included along with a quantitative assessment of the impact that these changes in accounting criteria will have on the consolidated net assets as of 1 January 2008, the transition date. Our opinion refers exclusively to the consolidated financial statements of 2008. We issued our auditors' report for the consolidated annual financial statements for the 2007 financial year on 28 March 2008, and declared that said statements have been drafted in accordance with the generally accepted accounting principles and rules used within the Spanish regulations in force for the financial year in question, and in which we expressed a favourable opinion.

In our opinion, the attached consolidated annual financial statements for the 2008 financial year give, in all significant aspects, a true and fair view of the consolidated net assets and the consolidated financial situation of Sociedad Estatal Correos y Telégrafos, S.A. and its subsidiaries as at 31 December 2008, as well as their consolidated trading profits, the variations in the consolidated net assets and the consolidated cash flow during 2008, and contain the necessary and sufficient information to be adequately interpreted and understood according to the generally accepted accounting principles and rules used within the Spanish regulations.

2

The attached 2008 management report contains the explanations the Directors of Sociedad Estatal Correos y Telégrafos, S.A. consider relevant regarding the Group's position, the development of their businesses and other issues and does not form an integral part of the 2008 consolidated financial statements. We have verified that the accounting information contained in the management report corresponds to that given in the 2008 consolidated financial statements. Our work as auditors is limited to the verification of the management report with the scope mentioned in this paragraph and does not include the review of information not found in the accounting records of Sociedad Estatal Correos y Telégrafos, S.A. and its subsidiaries.

KPMG Auditores, S.L.



Manuel Martín Barbón
Partner

26 March 2009



Consolidated Balance Sheet

at 31 December 2008

(Expressed in thousands of euros)

ASSETS	Notes	Balance at 31/12/2008
A) NON-CURRENT ASSETS		1,850,867
Intangible fixed assets	6	27,321
Patents, licences, trademarks and similar		143
IT applications		26,861
Other intangible fixed assets		317
Tangible fixed assets	7	1,796,940
Land and built assets		1,259,409
Plants and other tangible fixed assets		312,961
Fixed assets in progress and advance payments		224,570
Property investments	8	7,457
Land		1,968
Built assets		5,489
Long-term financial investments		1,057
Deferred tax assets	18	18,092
B) CURRENT ASSETS		843,568
Non-current assets held for sale	9	906
Stocks	10	6,920
Trade debtors and other accounts receivable	11	407,819
Clients by sales and provision of services		373,833
Other debtors		13,189
Staff		10,541
Current tax assets		2,206
Other credits with government bodies		8,050
Short-term financial investments	11	102,386
Short-term accruals		872
Cash and other equivalent liquid resources	12	324,665
Cash flow		324,020
Other equivalent liquid assets		645
TOTAL ASSETS (A+B)		2,694,435

NET ASSETS AND LIABILITIES	Notes	Balance at 31/12/2008
A) NET ASSETS		1,949,082
Equity	13	1,530,037
Capital		611,521
Share premium account		281,003
Reserves		559,564
Legal reserve		67,031
Reserves required by Articles of Association		148,041
Voluntary reserves		344,492
Reserves at consolidated companies		(1,318)
Result for the financial year		79,267
Government contributions, donations and legacies received	14	419,045
B) NON-CURRENT LIABILITIES		267,280
Long-term provisions	15	80,725
Long-term debts		4,723
Creditors for financial leasing		4,629
Other financial liabilities		94
Deferred tax liabilities	18	181,832
C) CURRENT LIABILITIES		478,073
Short-term provisions		320
Short-term debts	16	103,528
Trade creditors and other accounts payable	16	374,225
Suppliers		32,114
Other creditors		229,197
Staff		28,839
Current tax liabilities		1,691
Other debts with the government bodies		52,113
Customer advances		30,271
TOTAL NET ASSETS AND LIABILITIES (A+B+C)		2,694,435

Consolidated Profit and Loss Account

for the financial year ending 31 December 2008

(Expressed in thousands of euros)

CONTINUED OPERATIONS	Notes	Financial year 2008
Net turnover	17-a)	2,296,162
Procurement		(16,609)
Consumption of merchandise	17-b)	(15,586)
Depreciation of merchandise, raw materials and other procurement	10	(1,023)
Other operating revenue		41,523
Accessory and ordinary activities income		3,892
Operating contributions incorporated in the financial year performance	17-c)	37,631
Staff costs		(1,620,230)
Wages, salaries and similar remuneration		(1,374,011)
Social security contributions	17-d)	(233,982)
Other expenses		(12,237)
Other operating expenses		(537,454)
External services	17-e)	(524,711)
Taxes	17-f)	(1,584)
Losses, depreciation and variation of provisions for trade operations		(2,793)
Other expenses from ordinary activities		(8,366)
Amortisation of fixed assets	6, 7, 8	(117,363)
Allocation of government contributions of non-financial and other fixed assets	14	48,466
Excess on provisions	15	987
Depreciation of and result for disposal of fixed assets		(12,030)
Depreciation and losses		(10,761)
Results for disposals and others		(1,269)
OPERATING RESULT		83,452
Financial income	17-g)	21,981
For negotiable securities and other financial instruments:		
For third-parties		21,981
Financial expenses	17-g)	(1,287)
For debts with third parties		(214)
For updating provisions		(1,073)
Exchange differences		4,416
FINANCIAL RESULT		25,110
RESULT BEFORE TAX		108,562
Tax on earnings	18	(29,295)
CONSOLIDATED RESULT OF THE FINANCIAL YEAR		79,267

Consolidated Cash Flow Statement

for the financial year ending 31 December 2008

(Expressed in thousands of euros)

	Notes	Financial year 2008
A) OPERATING ACTIVITIES CASH FLOW		
1. Consolidated result for the financial year before tax		108,562
2. Adjustments to the consolidated result		
Amortisation of fixed assets	6, 7, 8	117,363
Evaluative corrections for depreciation	6, 7, 10, 11	12,997
Provisions variation		776
Allocation of capital contributions	14	(48,466)
Results for disposals of fixed assets		2,855
Financial income	17-g)	(21,981)
Financial expenses	17-g)	1,287
Exchange differences		(154)
Other income and expenses		819
3. Changes in the current capital		
Increase in "Stocks"		(2,920)
Increase in "Debtors and other accounts receivable"		(17,152)
Decrease in "Other current assets"		4,069
Increase in "Creditors and other accounts payable"		17,091
Increase in "Other current liabilities"		3,043
Other non-current assets and liabilities (+/-)		(269)
4. Other operating activities cash flow		
Interest payments		(213)
Interest charges		21,271
Collections (payments) for tax on earnings		(41,436)
5. Operating activities cash flow		157,542
B) INVESTMENT ACTIVITIES CASH FLOW		
6. Payments for investments		
Intangible fixed assets		(15,941)
Tangible fixed assets		(227,389)
Property investments		(45)
Other financial assets	11	(90,000)
7. Charges for withdrawal of investment		
Tangible fixed assets		37
8. Investment activities cash flow		(333,338)
C) FUNDING ACTIVITIES CASH FLOW		
9. Charges and payments for equity instruments		
Government contributions, donations and legacies received	14	52,934
11. Payments for dividends and accruals from other equity instruments		
Dividends	13	(51,958)
12. Funding activities cash flow		976
E) NET INCREASE/DECREASE IN CASH OR EQUIVALENTS		(174,820)

Statement of Changes in the Consolidated Net Assets

for the financial year ending 31 December 2008

(Expressed in thousands of euros)

■ A) Statement of recognised consolidated income and expenses for the financial year ending 31 December 2008:

	Notes	Financial year 2008
A) Consolidated result of the Profit and Loss Account		79,267
Income and expenses directly allocated to the Consolidated Net Assets:		
Government contributions, donations and legacies received	14	57,746
Tax effect		(17,324)
B) Total income and expenses directly allocated to the Consolidated Net Assets		40,422
Transfers to Consolidated Profit and Loss Account:		
Government contributions, donations and legacies received	14	(48,466)
Tax effect		14,533
C) Total transfers to the Consolidated Profit and Loss Account:		(33,933)
TOTAL OF RECOGNISED INCOME AND EXPENSES (A+B+C)		85,756

■ B) Total Statement of Changes in the Consolidated Net Assets for the financial year ending 31 December 2008:

	Registered capital	Share premium account	Reserves of the Parent Company		Other reserves	Reserves at consolidated companies	Consolidated result for the financial year	Government contributions, donations and legacies received	TOTAL
			Legal reserve	Voluntary reserves					
BALANCE, END OF 2007	611,521	281,003	56,639	463,377	156,676	(154,985)	104,481	-	1,518,712
Conversion adjustments to the new Spanish GAAP (<i>Plan General de Contabilidad</i>)	-	-	-	(12,410)	-	(547)	-	412,556	399,599
ADJUSTED BALANCE, START OF 2008	611,521	281,003	56,639	450,967	156,676	(155,532)	104,481	412,556	1,918,311
Total recognized consolidated income and expenses	-	-	-	-	-	-	79,267	6,489	85,756
Operations with the Sole Shareholder:									
Payment of dividends	-	-	-	-	-	-	(51,958)	-	(51,958)
Other variations in the Consolidated Net Assets	-	-	10,392	41,566	3,665	(6,127)	(52,523)	-	(3,027)
BALANCE, END OF 2008	611,521	281,003	67,031	492,533	160,341	(161,659)	79,267	419,045	1,949,082

Consolidated Annual Accounts Report

■ (1) Company activity

Sociedad Estatal Correos y Telégrafos S.A. (hereinafter, Correos, the Parent Company, or the Company) was incorporated as a public limited company [*sociedad anónima estatal*] pursuant to article 6.1.a) of the consolidated text of the *Ley General Presupuestaria* (the Budget Act) enacted by Royal Legislative Decree 1091/1988, of 23 September, and additional item twelve of the *Ley 6/1997, de 14 de abril, de Organización y Funcionamiento de la Administración General del Estado* (the Central Government Organisation Act, or LOFAGE), by a resolution of the Council of Ministers dated 22 June 2001, under article 58.1 of the *Ley 14/2000, de 29 de diciembre, de Medidas Fiscales, Administrativas y del Orden Social* (the Tax, Administrative and Social Measures Act). The Company is governed by the *Ley de Sociedades Anónimas* (the Companies Act), by the rest of applicable laws and regulations, and by its Articles of Association.

Under article 58.2 and 58.3 of the aforementioned Tax, Administrative and Social Measures Act, the Company began its operations, and was automatically subrogated to the activities, assets, rights and obligations of the former Entidad Pública Correos y Telégrafos (hereinafter, the Entity), on 3 July 2001, the day of registration with the *Registro Mercantil* (the Spanish registrar of companies) of the public deed of incorporation of the Company, dated 29 June 2001. From that day, the Company took on all of the functions carried out by the Entity and was subrogated to the status of authorised operator for the provision of the universal postal service (or USO, universal service obligation) entrusted to the former Entity by additional item one of the *Ley 24/1998, de 13 de Julio, del Servicio Postal Universal y de Liberalización de los Servicios Postales* (the Postal Act).

Pursuant to article 58.4 of the Tax, Administrative and Social Measures Act, the Company owns, from the time of its incorporation, all the assets, rights and obligations of the former Entity. The state-owned assets transferred from the former Entity to the Company at the time of its incorporation were removed pursuant to article 58.4 of the aforementioned Tax, Administrative and Social Measures Act. Nonetheless, the Central Government, through the *Dirección General del Patrimonio del Estado* ('Directorate General for State Assets'), has a pre-emptive right over certain buildings belonging to the Company, in accordance with the Council of Ministers' decision authorizing the incorporation of the Company. The exercise price of that right of first refusal will be set by surveyed value appraised by the technical units of the Directorate General for State Assets, which will use a property valuation by a public corporation specialising in property surveying. The lease rights are likewise reserved in the case that the Company decides to operate those buildings.

The Company, and in accordance with article 21 of Royal Decree 176/1998, of 16 February, which approved the setting up of the former Entity, to whose rights and obligations it was subrogated by the Tax, Administrative and Social Measures Act, and without prejudice to what is expressed above, may purchase, own, lease, exchange and dispose of any type of assets, without it being necessary for it to return its own assets deemed to be unnecessary for its purposes to the State Assets. However, the Company shall previously notify the Directorate General for State Assets before disposing of assets worth over 6 million euros, which in any event shall be approved by the Governing Board of the Company.

Furthermore, under article 58.7 of the Tax, Administrative and Social Measures Act, public employees who were in active service with the former Entity at the time of registration of the public deed of incorporation of the Company became employees of the Company without interruption, on the same employment terms and retaining their status as Central Government civil servants in their respective divisions and grades, with length of service, established pay and acquired rights being wholly preserved. Labour relations of this type of employee with the Company are regulated by Royal Decree 370/2004, of 5 March, which approved the Sociedad Estatal Correos y Telégrafos, S.A. Workers' Statute.

In addition, and pursuant to article 58.17 of the aforementioned Tax, Administrative and Social Measures Act, any worker contracted by the Company to provide his/her services from when it started to trade shall be engaged under an ordinary employment contract.

Some of the services provided by the Company come under the universal postal service established by the Postal Act. Pursuant to that legislation, a significant part of those services is exclusively reserved for the Company. Under article 30 of that Act, the amounts of financial consideration for providing these services shall be set and must be authorised by the competent authorities. The prices of the non-reserved postal services, provided by the Company, may be freely set according to market conditions and within the legally envisaged restrictions.

The Postal Act grants the Company, as operator in charge of providing the USO, a series of remunerations sources to finance the cost arising from the obligations to provide that service, which result in certain exclusive rights being established, such as: the services reserve system and the financing of the costs arising from providing this service, by means of the universal postal service compensation fund (not set up as at the date of this report). The Act likewise envisages a complementary allocation system by the State should the providing of the universal postal service be a burden for the operator in question, not offset by reserved services and the compensation fund. This complementary allocation takes the form of operating and capital contributions covered by the Spanish National Budget.

Therefore, article 29 of the Postal Act establishes the obligation for the aforementioned operator to keep a duly audited analytical accounting system, with a minimum of separate accounts being kept for each reserved service and for the non-reserved services. This obligation is regulated by Order FOM/2447/2004, of 12 July, concerning analytical accounting and the separation of accounts of postal operators.

The Postal Act assures general access to the postal network, through the operator appointed by the Central Government to provide the universal postal service, for all users and, as applicable, for postal operators on whom the law imposes universal postal service duties on terms of transparency, non-discrimination and impartiality. Furthermore, article 23.5 of said Act prescribes that postal operators other than those appointed by the Central Government to provide the universal postal service must negotiate the terms for access to the public postal network with the relevant universal postal service provider managing that network (currently, Correos) so as to preclude any collective agreement, decision or recommendation, or concerted or knowingly parallel practice aimed at restricting or distorting competition in the Spanish postal market.

Royal Decree 1298/2006, of 10 November, laid down the regulations for access to the public postal network and establishes the procedure to resolve disputes between postal operators, by setting benchmark terms and conditions for access to the network by all postal operators with individual licences that so request. The benchmark terms and conditions of network access shall be made public, shall be in the nature of guidelines and shall set out the technical and economic provisions for access to the public postal network that shall serve as the basis for bilateral agreements between the operator in charge of the universal postal service and the rest of postal operators. The benchmark terms and conditions shall be fixed following principles of transparency, impartiality and non-discrimination in the terms and prices of access for all operators.

On 23 April 2007, the Public Works Ministry approved the provisional benchmark terms and conditions for access to the public postal network, managed by the Company. These terms and conditions are guidelines and contain the technical and economic provisions for access to the public postal network that shall serve as the basis for bilateral agreements between the Company, as operator in charge of the universal postal service, and other postal operators.

Pursuant to article 2 of the Articles of Association, the corporate purpose of the Company, with registered office at Vía Dublín nº7 of Madrid, is as follows:

- To manage and operate postal services of any kind.
- To provide money order services and money transfers.

- To receive applications, written submissions and notices from the public to government bodies, subject to applicable laws and regulations.
- To serve government and court notices in accordance with applicable laws and regulations.
- To provide telegram, telex and bureaufax services and carry on other activities and services relating to telecommunications.
- To propose stamp issues and to issue the rest of forms of payment for postal services, and to sell and distribute its products and issues.
- To provide, on a mandatory basis, such services relating to its objects as government bodies may order.
- To carry on any other activities or services supplementary to the above or that may be needed for the proper pursuance of the objects of the Company, for which purpose the Company may create and control holdings in other companies.

The Company has contracts in place with the various Central Government Ministries to provide postal and telegraphic services.

The sole shareholder of the Company is the Central Government of Spain, through its Directorate General for State Assets. Therefore, under additional item two of the *Ley 2/1995, de 23 de marzo, de Sociedades de Responsabilidad Limitada* (the Limited Liability Companies Act), which amends the consolidated text of the Companies Act, enacted by Royal Legislative Decree 1564/1989, of 22 December, the Company is a company wholly owned by a sole shareholder.

The Company is the head of a group of companies known as Correos Group. The Annual Accounts of the Company corresponding to the financial year ending 31 December 2007, both individual and consolidated, were drawn up by the Governing Board of Correos on 28 March 2008, being approved by its Sole Shareholder on 19 May 2008, being filed at the Madrid *Registro Mercantil* (the Spanish registrar of companies).

■ (2) Structure of the Correos y Telégrafos Group

The subsidiary companies of the Parent Company that comprise the Correos y Telégrafos Group (hereinafter, the Group or the Correos Group) falling within the scope of consolidation as at 31 December 2008 were:

Name of the company	Principal activity	Registered office
Correos Telecom, S.A.	Management of the Company's telecommunication network	c/ Conde de Peñalver, 19 (Madrid)
Correo Híbrido, S.A.	Hybrid mail services	c/ Hiedra, 7 (Madrid)
Chronoexpres, S.A.	Courier services for documents and small parcels	Avenida de Europa, 8 Coslada (Madrid)

Chronoexpres, S.A., with domicile at Avenida de Europa, 8 in Coslada (Madrid), provides goods delivery services, auxiliary and complementary courier activities and collection, sorting and distribution of goods and parcels. The main activity of Chronoexpres, S.A. is the transport of documents and small parcels, both nationally and internationally.

Correos Telecom, S.A., has its domicile at Calle Conde de Peñalver, 19 in Madrid and its corporate objective, coinciding with its principal activity, consists of managing the telecommunications network owned by the Company, providing telecommunication services, mediating, promoting and selling surplus capacity of the Company's telecommunications network and providing postal service-related telecommunication services.

Correo Híbrido, S.A., in turn, has its domicile at Calle Hiedra, 7 in Madrid and its corporate objective, coinciding with its principal activity, consists of providing of hybrid mail services. Hybrid mail refers to postal services which allow the client to send documentation to Correo Híbrido, S.A. telematically or electronically, with the latter taking on the responsibility to print the contents on paper for its subsequent sealing in envelopes and deposit in the Company's admission centres for delivery to addressees.

Pursuant to the Royal Decree 1564/1989, of 22 December, whereby approving the consolidated text of the Companies Act, the Parent Company has made the communications corresponding to the subsidiaries as regards its percentage of holding in the same.

The 31 December 2008 statement for the equity instruments of the Parent Company made up of the Correos Group, before the standardisation and/or consolidation adjustments, is as follows:

Data in thousands of euros

	Chronoexpres, S.A.	Correos Telecom, S.A.	Correo Híbrido, S.A.
Net book value at 31/12/08	10,349	1,503	1,022
Percentage of direct holding	100 %	100 %	100 %
Share capital	62	1,503	974
Share premium account	52,488	-	48
Reserves	(490)	2,018	49
Results from previous financial years	(52,290)	-	(18)
Profit for the financial year	1,000	113	222
Total Net Assets	770	3,634	1,275
Operating result	1,533	9	593

■ (3) Basis of presentation of the Consolidated Annual Accounts

In preparing these Consolidated Annual Financial Statements, the Directors of the Parent Company have applied, for the first time, the accounting regulations included in the Spanish Generally Accepted Accountancy Principals, GAAP (*Plan General de Contabilidad*), approved by Royal Decree 1514/2007, of 16 November, as well as all other company law in force at 31 December 2008.

The Correos Group Parent Company has prepared these Consolidated Annual Financial Statements, in accordance with the GAAP, as set out by Royal Decree 1815/1991, of 20 December, enacting the rules on the preparation of consolidated annual financial statements. Specifically:

- The Annual Financial Statements of the Parent Company are consolidated with those of the subsidiaries (see note (2)) by the global integration method. The Company holds all voting rights in all consolidated companies.

- Inter-Group balances, transactions and significant results have been eliminated in the consolidation process.
- Where subsidiaries have followed materially different accounting or valuation principles from those of the Parent Company, adjustments have been made as needed to present the Consolidated Annual Financial Statements of the Group in a standardised manner.
- The variations in reserves at the different subsidiaries from their respective date of coming under the control of the Parent Company or of first consolidation to 31 December 2008 are covered by the item 'Reserves at consolidated companies' of the Consolidated Balance Sheet.

As regards the application of the GAAP, and under the scope of the requirements laid down by Royal Decree 1514/2007 whereby the former was passed into law, Correos Group prepared an opening balance sheet at 1 January 2008, the considered date of transition, on which:

- It recorded all of the assets and liabilities whose recognition is required by the GAAP.
- It cancelled all of the assets and liabilities whose recognition is not permitted by the GAAP.
- It re-classified all of the equity elements in line with the definitions and the criteria included in the GAAP.

The effects deriving from the first two preceding points have been directly consolidated in the Net Assets of Correos Group.

These Consolidated Annual Financial Statements have been drawn up by the Directors of the Parent Company, so they can be submitted for approval by its Sole Shareholder. The Directors of the Parent Company believe that they will be approved with no modifications.

A) TRUE AND FAIR VIEW

These Consolidated Annual Financial Statements have been prepared on the basis of the accounting records of the companies that make up Correos Group, and in accordance with the legal regulations on accounting in force at 31 December 2008, to provide a true and fair view of the assets, financial situation and results of the Group. The Consolidated Cash Flow Statement has been prepared with the aim of truthfully reporting the origin and the use of the monetary assets representing cash and other equivalent liquid assets of the Group.

The figures contained in these Consolidated Annual Financial Statements are expressed in thousands of euros, unless stated to the contrary, with the euro being the functional currency of the Company.

B) CRITICAL ASPECTS OF THE VALUATION AND ESTIMATION OF THE UNCERTAINTY

In preparing the Consolidated Annual Financial Statements, the Directors of the Parent Company have had to use judgements, estimates and assumptions that have a bearing on the application of the accounting policies and the balances of assets, liabilities, income and expenses and the breakdown of contingent assets and liabilities at the date of issue of the same.

The related estimates and assumptions are based on historic data and on other diverse factors which are understood as being reasonable in accordance with the circumstances; they are used as a base in order to establish the book value of the assets and liabilities that are not easily available by means of other sources. The respective estimates and assumptions are reviewed continuously; the effects of the reviews of the book estimates are recognised in the period in which they were made, if these affect only that period, or in the period of review and future periods, if the review affects both of these. However, the inherent uncertainty of the estimates and assumptions may lead to results that require a future adjustment of the book values of the assets and liabilities affected.

Apart from the general process of systematic estimates and their periodic review, the Directors of the Parent Company have completed certain value judgements regarding topics of particular importance concerning the Consolidated Annual Financial Statements.

The main judgements relating to future events and other sources of uncertain estimates at the date of the drawing up of the Consolidated Annual Financial Statements are as follows:

— *Leasing obligations –Correos Group as lessee*

Correos Group has signed leasing contracts for the undertaking of its activities. The classification of said leasing contracts as operating or financial requires that, based on the terms and conditions of these agreements, Correos Group determine who retains all of the risks and benefits of the ownership of the assets, and according to that classification, the contracts will be classified as operating or financial leasing contracts.

— *Leasing obligations – Correos Group as lessor*

Correos Group maintains different agreements with third parties to lease certain assets under its ownership. The Group has determined that, based on the evaluation of the terms and conditions of these contracts, it retains all ownership risks and benefits of the same, thereby recognising these contracts as operating leases.

— *Tax situation*

As set out in current legislation, taxes may not be deemed definitively settled until the filed tax statements have been inspected by the tax authorities or its limitation period elapsed. In the opinion of the Directors of the Parent Company, at 31 December 2008 there are no additional contingencies to those recorded in these Consolidated Annual Financial Statements which could represent significant liabilities for the Parent Company in the event of inspection.

The principal assumptions and estimates relating to future events and other sources of uncertain estimates at the date of the drawing up of the Consolidated Annual Financial Statements are as follows:

— *Deferred tax assets*

The recognition of the deferred tax assets is made on the basis of the future estimates made by Correos Group relating to the probability of future taxable gains being available.

— *Provisions*

Correos Group recognises provisions for risks, in accordance with the accounting policy stated in the note (5-k) of this report on “Provisions and contingencies”. Correos Group makes judgements and estimates in relation to the probability of the occurrence of said risks, as well as their amount, and it records a provision when the risk has been considered likely, estimating the costs that said obligation would incur.

— *Depreciation of non-financial assets*

In general terms, Correos Group annually analyses whether there are indicators for depreciation of non-financial assets. In the specific case of non-financial assets other than the intangibles with an indefinite service life, the Group subjects them to value depreciation tests when there is evidence of said depreciation.

— *Calculation of the reasonable values, values in use, current values and values that can be recovered*

The calculation of reasonable values, values in use, current values and values that can be recovered implies the calculation of future cash flows and assuming hypotheses relating to the future values of the flows, as well as the discount rates applicable to the same. The related estimates and assumptions are based on historical data and on other diverse factors which are understood to be reasonable in accordance with the circumstances.

C) COMPARISON OF THE INFORMATION

The Parent Company, as is permitted in the Royal Decree 1514/2007, has opted not to present comparative information concerning the financial year 2007. However, details of the main differences between the accounting criteria used to prepare the Consolidated Annual Financial Statements 2007 and the current statements are provided in note (22) of this report on the “Aspects derived from the transition to the new accounting regulations”, along with the quantification of the impact that this variation in accounting criteria implies on the Consolidated Net Assets of Correos Group.

■ (4) Application of the results of the Parent Company

The proposal for distribution of results drawn up by the Directors of the Parent Company and pending approval by its Sole Shareholder is as follows:

Thousands of euros

Distribution base:

Balance of the Profit and Loss Account	77,932
Reserves required by Articles of Association	148,041
Voluntary reserves	351,555
Total	577,528

Application:

To legal reserve	7,794
To reserves required by Articles of Association	163,627
To voluntary reserves	367,141
To dividends	38,966
Total	577,528

LIMITATIONS ON THE DISTRIBUTION OF RESULTS AND DIVIDENDS

Pursuant to section 214 of Royal Decree 1564/1989, of 22 December, whereby the consolidated text of the Companies Act was passed into law, companies are obliged to use 10% of the profits from each financial year to establish the legal reserve until this reaches at least 20% of the share capital. This reserve cannot be distributed to the shareholders, and it can only be used to cover the negative balance of the Profit and Loss Account, in the case of other reserves not being available.

In addition, the Parent Company Articles of Association require that 20% of the profits from the financial year be used to establish the Articles of Association reserves. These reserves can be freely disposed of.

■ (5) Recording and valuation rules

The principal recording and valuation criteria used by the Parent Company in preparing these Consolidated Annual Financial Statements, pursuant to the terms set out in the Spanish GAAP approved by Royal Decree 1514/2007, are as follows:

(A) INTANGIBLE FIXED ASSETS

Intangible fixed assets are valued at their purchase price or at their production cost, reduced by the accumulated amortisation and by the possible losses due to depreciation of their value. An intangible asset is recognised as such if and only if it is likely to generate future profits and its cost can be valued in a reliable manner.

An intangible fixed asset with a defined service life is systematically amortised throughout its estimated service life and its recoverability is analysed when events or changes take place that indicate that the net book value may not be recoverable. The methods and periods of amortisation applied are reviewed at the close of the financial year, and as appropriate, they are adjusted prospectively.

IT applications

These are recorded at their acquisition cost and are amortised by the straight-line method throughout their estimated service life which, in general terms, ranges between three and five years. The IT applications maintenance costs are taken to expenses upon accrual.

Patents, licences, trademarks and similar

These are recorded at the actual cost paid for certain purchased patents and amortised over a ten year period.

(B) TANGIBLE FIXED ASSETS

Tangible fixed assets are valued at their acquisition cost or contribution value to the Parent Company by the former Entity, reduced by the accumulated amortisation and, as appropriate, by the accumulated amount of the recognized evaluative corrections for depreciation. The contribution value mentioned above does not differ from the book recording criterion laid down by the Spanish GAAP.

Tangible assets are amortised from the time at which they are made available for commissioning and are amortised systematically and rationally (on the basis of their service life and of their residual value), using a straight-line method during the following years of estimated service life:

Buildings and other built assets	30 – 75
Plants and machinery	3 – 33
Other fixtures, tools and furnishings	5 – 20
Information processing systems	3 – 8
Transport elements	5 – 10
Other fixed assets	3 – 12

Likewise, should there be indices of depreciation, Correos Group evaluates the need to make evaluative corrections to the elements that form part of its tangible fixed assets, with the aim of always allocating them to the lesser amount between their book value and their value that can be recovered.

Maintenance and repair costs for tangible fixed assets that do not improve utility or lengthen lifetime are taken to the Profit and Loss Account at the time of accrual.

The investments made by Correos Group in property owned by third parties that meet the requirements to be considered as operating leases are valued, provided that these are not separated from the leased or transferred asset in use, at the cost of said investments and amortised during an estimated service life of 20 years, provided that the contractual conditions on the basis of which the properties are used so permit.

Expenditures on adapting provisionally rented premises during renovation of other premises are capitalised and amortised in the year in which they are incurred. The effect of not systematically amortising such expenditures over the estimated duration of the renovation process is not significant for these Annual Financial Statements taken as a whole.

(C) PROPERTY INVESTMENTS

The property investments comprise land and built assets that are leased to third parties. The built assets are amortised using a straight-line method on an estimated service life of 35-75 years.

The regulations for the evaluating of tangible fixed assets are wholly applicable to property investments.

(D) OPERATING AND FINANCIAL LEASES

Correos Group assesses leasing contracts as financial when it can be deduced from their economic conditions that all of the risks and benefits inherent in the ownership of the asset object of the agreement are substantially transferred. The agreements that do not substantially transfer all of the risks and benefits and in which the lessor is only entitled to use the asset for a certain period of time are classified as operating leases.

Correos Group as lessee

The assets acquired by means of financial leases are recorded according to their nature at the lesser value between the reasonable value of the asset and the current value at the start of the minimum agreed payments at the start of the lease, with a financial liability being accounted for the same sum. The payments for the lease are distributed between the financial costs and the reduction of the liability. For these purposes the same criteria of amortisation, depreciation and cancellation are applied as in the rest of the assets of this nature.

Payments for operating leases are recorded as costs in the Consolidated Profit and Loss Account on the basis of their accrual.

Correos Group as lessor

The earnings from operating leases are recorded in the Consolidated Profit and Loss Account on the basis of their accrual. The direct costs that can be allocated to the agreement are included as

the higher value of the leased asset and are recognised by applying the same criterion used for recognizing the earnings from the lease.

(E) DEPRECIATION OF THE VALUE OF THE NON-CURRENT, NON-FINANCIAL ASSETS

Should there be indices of depreciation, the book value of the non-current, non-financial assets of Correos Group is reviewed, at least on the date of the close of the financial year, in order to determine whether such indices prevail. Should these indices exist and, in any event, for any intangible asset with an unlimited service life, should there be any, the value of these assets that can be recovered is estimated.

The value that can be recovered is the higher figure between the reasonable value less the costs of sale and its value in use. In order to determine the value in use, future cash flows are discounted at their current value, using before-tax discount rates that reflect the current market estimates of the temporary valuation of the funds and of the specific risks associated with the asset. For those assets that do not generate highly independent cash flows, the recoverable amount is determined for the cash-generating units to which the valued assets pertain.

Losses for depreciation are recognised for those assets or, as appropriate, for the cash-generating units that incorporate them, when their book value exceeds the corresponding recoverable amount. Losses for depreciation are recorded within the Profit and Loss Account and are reverted, except if originating from goodwill, if there have been changes in the estimates used in order to determine the recoverable amount. The reversal of a loss due to depreciation is recorded in the Profit and Loss Account, with the restriction that the book value of the asset after the reversal cannot exceed the amount, net of amortisations, that would appear in the books had the aforementioned loss due to depreciation not been previously recognised.

(F) FINANCIAL ASSETS

The financial assets of Correos Group correspond to accounts receivable from clients, debtors, staff and government bodies, established deposits and guarantees, acquired equity instruments and cash and other equivalent liquid assets.

Correos Group classifies its financial assets into the following categories for the purposes of evaluation:

- Loans and entries receivable: These include the financial assets which, not being negotiated in any organised asset market, have expected cash flows of a sum that is determined or can be

determined in which it is estimated that the whole of the disbursement made by the Company can be recovered, excluding the reasons attributed to the solvency of the debtor. This category records the loans for trade and non-trade operations, loans to staff, the debtor accounts with government bodies and the established deposits and guarantees.

— Financial assets available for sale: including the acquired equity instruments.

— Cash and other equivalent liquid assets: see note (i).

The financial assets that are going to be realised in less than 12 months from the date of preparation of the Consolidated Balance Sheet are classified as current, and those to be realised in a longer period are classified as non-current.

In their initial recognition, the financial assets are recorded at their reasonable value which, unless there is evidence to the contrary, is the price of the transaction plus the transaction costs that are directly attributable thereto.

Following the initial recognition, Correos Group values its financial assets as set out below:

— The financial assets included in the category of “Loans and entries receivable” are valued at the amortised cost.

— The financial assets included in the category of “Financial assets available for sale” are valued at their cost, less, as appropriate, the accumulated amount of the evaluative corrections, since their reasonable value cannot be reliably estimated.

— Cash and other equivalent liquid assets: see note (i).

Notwithstanding this statement, the loans for trade operations with maturity no later than one year and which do not have a contractual interest rate are valued at their nominal value, both in the initial valuation and in the subsequent valuation, when the effect of not updating the cash flows is not significant.

In the case of the loans for trade operations having a contractual interest rate, the interest accrued is recorded in the Consolidated Profit and Loss Account, applying the effective interest rate method.

Correos Group cancels a financial asset, or a part of the same, when the contractual rights over the effective movements of the financial asset expire or are transferred. It is necessary for the risks and benefits inherent in their ownership to be substantially transferred. These circumstances

are evaluated by comparing the exposure of Correos Group, before and after the transfer, to the variation in the amounts and in the scheduling of the net cash flows of the asset transferred.

(G) DEPRECIATION OF VALUE OF THE FINANCIAL ASSETS

The book value of the financial assets is corrected by debiting the Consolidated Profit and Loss Account when there is objective evidence that a loss due to depreciation has taken place. In order to determine the losses due to depreciation, Correos Group evaluates the possible losses of both the individual assets and the groups of assets with similar risk characteristics.

There is objective evidence of depreciation when non-payments, breaches, re-financings or the possibilities of not recovering the cash flows have taken place, or there is delay in collecting these.

For loans and other entries receivable, the amount of the losses due to depreciation is equal to difference between their book value and the current value of the future cash flows that it is estimated are going to be generated, discounting the effective interest rate at the time of their initial recognition.

The reversal of the depreciation of the loans and entries receivable is recognised as an earning in the Consolidated Profit and Loss Account and is limited to the book value of the financial asset that would be recorded on the date of reversal, if the depreciation in value not been recorded.

(H) NON-CURRENT ASSETS HELD FOR SALE

This item includes those assets whose book value is fundamentally going to be recovered through their sale, rather than through their continuous use, when the following requirements are met:

- that they are available for immediate sale in their current conditions, subject to the usual and habitual terms for their sale, and
- that they are highly likely to be sold.

The non-current assets maintained for sale are recorded at the lower of the following two amounts: their book value and their reasonable value less the costs of sale. These assets are not amortised, and if necessary, the opportune evaluative corrections will be made in such a manner that the book value does not exceed the reasonable value less the costs of sale.

(I) CASH AND OTHER EQUIVALENT LIQUID ASSETS

Cash and other equivalent liquid resources make up the cash in bank and the deposits and other financial assets that can be converted into cash whose maturity, at the time of their acquisition, is no longer than three months, are not subject to a significant risk of change in value and that form part of the normal cash flow management policy of Correos Group.

(J) STOCKS

The stocks are valued at the acquisition price determined by the weighted average cost method.

When the net realizable value of the stocks is lower than their acquisition price or at their production cost, the opportune evaluative corrections are made, with these being recognised as a cost in the Consolidated Profit and Loss Account.

(K) PROVISIONS AND CONTINGENCIES

Correos Group records provisions in its Consolidated Balance Sheet when obligated as the result of past events (whether due to legal or contractual provision, or due to an implied or tacit obligation) that can be quantified, and it is considered likely that this represents a future outlay of resources for its liquidation.

The provisions are valued at the current value of the best possible estimate of the amount needed to cancel the obligation or transfer it to a third party, with the adjustments that arise due to the updating of the provision being recorded as a financial cost as they accrue. For those provisions with maturity earlier than or equal to one year, and the financial effect is not significant, no discount of any kind is made. The provisions are reviewed at the date of closing of the financial year and are adjusted to reflect the best current estimate of the corresponding liabilities at all times.

(L) FINANCIAL LIABILITIES

The financial liabilities of Correos Group correspond to the accounts payable, trade creditors and creditors for fixed assets, deposits and guarantees and the accounts payable under other headings.

Correos Group classifies all of its financial liabilities into “Debits and entries payable”.

The financial assets maturing less than 12 months from the date of the preparation of the Consolidated Balance Sheet are classified as current, while those maturing afterwards are classified as non-current.

The financial liabilities are initially valued at their reasonable value which, unless there is evidence to the contrary, is the price of the transaction.

After the initial recognition, the financial liabilities are valued at their amortised cost. The accrued interest is recorded in the Profit and Loss Account, applying the effective interest rate method.

Nevertheless, the debits for trade operations with maturity no later than one year and that do not have a contractual interest rate, whose amount is expected to be paid in the short term, both in the initial valuation and in the subsequent valuation, are valued at their nominal value, since the effect of updating the cash flows is not significant.

Correos Group cancels a financial liability when the obligation has become extinguished.

(M) FOREIGN CURRENCY TRANSACTIONS

Monetary entries

Transactions in foreign currency are initially recorded at the exchange rate at the date of the transaction.

The monetary assets and liabilities denominated in foreign currency are converted at the exchange rate at the date of preparation of the Consolidated Balance Sheet. Both positive and negative exchange rate differences that arise in this process, together with those that take place when said capital elements are liquidated, are recognised in the Consolidated Profit and Loss Account of the financial year in which they appear.

Non-monetary entries

The non-monetary entries valued at their historical cost are valued by applying the exchange rate at the date of the transaction.

(N) INCOME AND EXPENSES

Income and expenses are allocated on the basis of the actual movement of goods and services that they represent and regardless of the time at which the monetary or financial movement deriving from these takes place.

Revenue from sales and provision of services

The earnings from the sale of goods and the provision of services are valued at the reasonable value of its counterpart, received or to be received, deriving from the same, deducing the amount of the discount, the reduction in the price and other similar entries that the company may concede, together with the indirect taxes that are levied on the operations and which can be passed on to third parties. The interest incorporated into trade loans which mature no later than one year that do not have a contractual interest rate, since the effect of not updating the cash flows is insignificant, is included as the higher value of the earnings.

Income is recorded based on the economic fund of the operation and is recognised when each and every one of the following conditions is met:

- The amount of the revenue can be reliably valued.
- It is likely that Correos Group receive the profits or economic returns derived from the transaction; and
- The costs incurred or to be incurred in the transaction can be valued reliably.

Income deriving from the postal services whose consideration is received by means of the sale of franking elements (stamps or similar) is recorded at the time at which it is sold regardless of the time of the actual provision of the service.

For the rest of the postal services, as well as money orders and telegrams, revenues are recognised upon actual provision of the service, i.e., when the real movement occurs.

Compensation for lay-offs

Group companies are obligated to pay compensation to any employees under ordinary employment contracts who are laid off, except when the dismissal is for certain legally defined reasons. Therefore, any lay-off compensation payouts that emerge are charged to expenses at the time the decision to lay off is made.

(O) LIABILITIES FOR REMUNERATIONS TO STAFF

Pensions supplements

During the financial year 2000, the Parent Company created a pension plan to supplement the employee benefits under public-sector social security and government pension schemes. This fixed-contribution pension plan, is currently governed by Royal Legislative Decree 1/2002, of 29 November, which approves the consolidated text of the *Ley de Regulación de los Planes y Fondos de Pensiones* (the Pensions Act) and by Royal Decree 304/2004, of 20 February, enacting the Pension Regulations and its subsequent amendments. The plan is open on a voluntary basis to serving permanent employees under ordinary employment contracts, public employees in active service or special service, and temporary staff whose contract at the time of their application to join the scheme has been in force for at least two years continuously.

The Parent Company, pursuant to the Rules of the Correos y Telégrafos Pension Plan, is obligated to make annual contributions or provisions for the benefit of the participants of the aforesaid scheme for a sum equivalent to 0.5% of the total employee pay in the financial year. In this respect, at 31 December 2008, the Parent Company had no commitment to the participants in the above scheme further to the sums effectively contributed from the date of the creation of the plan.

The global amount of contributions by the Parent Company to a financial institution since 2000, when the pension fund was created, is 84,028 thousand euros. The amount committed and accrued in 2008 was 13,427 thousand euros, which exceeds 0.5% of total employee pay. The Parent Company has no commitment further to the sums already contributed at 31 December 2008.

Retirement bonuses

The various collective bargaining agreements applicable by geographical area in Chronoexpres, S.A. provide that employees taking voluntary early retirement from age 60 to 65 must be paid a length-of-service bonus, which varies from various fixed sums to a set number of monthly payments if they have provided services to the company between 10 and 30 years (depending on the applicable collective bargaining agreement).

At 31 December 2008, Chronoexpres, S.A. has contracted a policy with an insurance company to meet the hypothetical liability that could arise for it in meeting these long-service awards in the future, since this does not exist at present. The Directors of the Parent Company believe that any additional liabilities not covered by the aforesaid policy that could arise from the guarantees committed to with the workers of its subsidiary, should there be any, will not be in any way significant.

(P) TAX ON EARNINGS

The tax on earnings of the financial year is calculated with the sum of the current tax, which results from the application of the relevant rate of taxation on the taxable base of the financial year, after applying the existing allowances and deductions, and from the variation of the assets and liabilities for deferred taxes recorded. This is recognised in the Profit and Loss Account, except in those cases in which this tax is directly related to entries directly reflected in the net assets of Correos Group, in which case the tax is recognised, likewise, in the same item.

The assets and liabilities for current taxes are the estimated amounts payable or receivable from the government bodies, in accordance with the taxable rates in force at the date of the balance sheet, and including any other adjustment corresponding to previous financial years.

The tax on deferred earnings is recorded following the method of recording liabilities for all of the temporary differences between the tax base of the assets and liabilities and their book values in the Consolidated Annual Accounts.

Correos Group recognises a liability for deferred tax for all temporary taxable differences, except:

- When the liability for deferred tax derives from the initial recognition of goodwill or from an asset or a liability in a transaction which is not a combination of businesses and which did not affect either the book result or the tax result at the time of the transaction.
- With respect to the temporary taxable differences associated with investments in dependent and associated companies, if the time of the reversal of the temporary differences may be controlled by the Parent Company and it is likely that the temporary differences will not revert in the foreseeable future.

Correos Group recognises the assets for deferred tax for all of the deductible temporary differences, unused tax credits and negative taxable bases that are not applied, inasmuch as the likely result that the Group company that has generated them has future tax gains that make the application of these assets possible, except:

- When the asset due to deferred taxes relating to the deductible temporary difference derives from the initial recognition of an asset or liability in a transaction which is not a combination of businesses and which did not affect either the book result or the tax result at the time of the transaction.
- With respect to the temporary deductible differences associated with investments in dependent and associated companies, the asset for deferred taxes is only recognised, inasmuch

as it is likely that the temporary differences will revert in the foreseeable future and there is sufficient tax gain available against which the temporary differences apply.

At the date of closing of each financial year, Correos Group evaluates the assets by deferred taxes recognised and those that have not been previously recognised. On the basis of this evaluation, Correos Group cancels the assets previously recognised if it is unlikely that they are going to be recovered and/or records any asset for deferred tax not previously recognised provided that it is likely that the Correos Group company that has generated them has tax gains that makes its application possible.

The assets and liabilities for deferred taxes are valued at the taxable rates expected at the time they are reversed, in accordance with the approved regulations in force. And in accordance with the manner in which it is rationally expected to recover or pay for the asset or liability for deferred tax. The adjustments of the values of the assets and liabilities for deferred taxes are allocated to the Profit and Loss Account, except insofar as the assets and liabilities for deferred taxes affected have been charged or paid directly to the net assets of Correos Group.

The assets and liabilities for deferred taxes are valued without taking into account the effect of the financial discount.

(Q) GOVERNMENT CONTRIBUTIONS, DONATIONS AND LEGACIES

The capital contributions received by the Parent Company for the provision of the universal postal service are recorded in a specific entry of Consolidated Net Assets once the relevant tax effect has been deducted, on the understanding that this complies and will comply with the requirements necessary for them to be considered non-refundable.

Non-refundable capital contributions are allocated to the Consolidated Profit and Loss Account during the period of time equivalent to the service life of the elements of the assets financed with said contributions, unless these assets are transferred, depreciate or are eliminated, in which case they are allocated to the Consolidated Profit and Loss Account at the same time that this occurs. The allocation to the Consolidated Profit and Loss Account of the contributions used for the financing of land is deferred until the financial year in which their transfer and/or depreciation takes place.

The operating contributions received by the Parent Company for the provision of the universal postal service are recorded as income in the Consolidated Profit and Loss Account in the period in which they have been granted.

(R) VALUE ADDED TAX

The non-deductible Value Added Tax (hereinafter, VAT) forms part of the acquisition price of the investment assets, as well as the cost of the goods and services under transactions subject to Value Added Tax. Adjustments for non-deductible Value Added Tax borne as a result of the regularisation associated with the Parent Company's final pro rata determinations, including the regularisation of investment assets, do not alter the initial valuations of those assets. Therefore, any such effect is recorded in the Consolidated Profit and Loss Account.

Article 2 of the *Ley 23/2005, de 18 de noviembre, de Reformas en Materia Tributaria para el Impulso a la Productividad* ('the Tax Incentives for Productivity Act') changed the Value Added Tax rules applicable to the postal services provided by the Parent Company with effect from 1 January 2006. In particular, from 1 January 2006 the Value Added Tax exemption for postal services was limited to universal postal services reserved to the operator appointed to provide them, i.e., the Parent Company. This new scenario meant significantly increasing the deductible VAT of the Parent Company until that date. Therefore, the Company is filing restatements regarding investment assets within the legally prescribed deadlines. The total revenue in each of the financial years from such restatements has been stated under the item "Taxes" in the heading "Other operating expenses" of the Consolidated Profit and Loss Account.

■ (6) Intangible fixed assets

The detail of movements during the financial year is as follows:

	Balance at 01/01/2008	Recordings and Provisions	Disposals	Balance at 31/12/2008
Cost-				
Patents, licences, trademarks and similar	344	-	-	344
Technical studies and papers	8,696	-	-	8,696
IT applications	168,131	16,051	(3,932)	180,250
Other intangible fixed assets	423	-	-	423
Total cost	177,594	16,051	(3,932)	189,713
Accumulated amortisation-				
Patents, licences, trademarks and similar	(165)	(36)	-	(201)
Technical studies and papers	(8,696)	-	-	(8,696)
IT applications	(140,417)	(16,531)	3,559	(153,389)
Other intangible fixed assets	(90)	(14)	-	(104)
Total accumulated amortisation	(149,368)	(16,581)	3,559	(162,390)
Corrections for depreciation-				
Other intangible fixed assets	(7)	-	5	(2)
Net value	28,219			27,321

The item "IT applications" records the amounts paid by Correos Group in order to acquire the ownership or the right of use of IT programmes as well as the activation of evolutionary improvements regarding different software owned by the Group. The most significant recordings of the financial year correspond to the investment made by the Parent Company for the acquisition of licences, the purchase of new programmes and the evolutionary improvement of others for the sum of 3,922; 6,848; and 4,733 thousand euros, respectively. Likewise, during the financial year the Parent Company cancelled intangible elements for the sum of 3,495 thousand euros as these are wholly amortised.

During the financial year, the Parent Company spent 3,760 thousand euros of the capital contribution granted by the State to provide the universal postal service on the acquisition of IT applications.

At 31 December 2008, the Parent Company has binding agreements for the acquisition of IT applications for the sum of 9,485 thousands of euros. On that date, there were no binding agreements

of sale involving any intangible asset owned by the Parent Company. Part of the acquisitions to be made by the Group in the financial year 2009 will be financed by the non-refundable capital contributions granted for the benefit of the Parent Company in the Spanish National Budget corresponding to the financial year 2009 (see note (14)).

The cost of the wholly depreciated items that formed part of the intangible fixed assets of Correos Group at 31 December 2008 amounts to 146,272 thousand euros.

■ (7) Tangible fixed assets

The detail of movements during the financial year is as follows:

	Balance at 01/01/2008	Recordings and Provisions	Disposals	Transfers	Balance at 31/12/2008
Cost-					
Land	317,276	1,344	(5)	21,233	339,848
Built assets	1,109,169	37,002	(2,852)	83,860	1,227,205
Plants and other tangible fixed assets	731,160	76,298	(80,231)	4,644	731,845
Fixed assets in progress and advance payments	220,043	114,264	-	(109,737)	224,570
Total cost	2,377,648	228,908	(83,088)	-	2,523,468
Accumulated Amortisation-					
Built assets	(228,576)	(30,813)	620	2	(258,767)
Plants and other tangible fixed assets	(411,982)	(69,833)	78,855	(2)	(402,962)
Total accumulated amortisation	(640,558)	(100,646)	79,475	-	(661,729)
Corrections for depreciation-					
Land and built assets	(39,754)	(11,428)	2,305	-	(48,877)
Plants and other tangible fixed assets	(15,869)	(58)	5	-	(15,922)
Total corrections for depreciation	(55,623)	(11,486)	2,310	-	(64,799)
Net value	1,681,467				1,796,940

The most significant recordings made under the headings “Land”, “Built assets”, and “Fixed assets in progress and advance payments” during the financial year 2008 correspond to the purchase of new premises for the normal undertaking of the activity of the Parent Company, reform and adaptation of existing premises already owned by the same and investments made at different logistics centres of the latter for the processing and postal distribution associated with its main activity for sums of 68,569; 76,729; and 4,911 thousands of euros respectively.

The heading “Plants and other tangible fixed assets” includes the investments made in plants carried out at the properties used by the Group (whether or not it owns them), together with the investments made in machinery, IT equipment, transport elements and furnishings. The most significant recordings made under this heading during 2008 correspond to the purchase of furnishings and of equipment for data processing for the sum of 13,052 and 27,584 thousand euros respectively.

During the financial year, the Parent Company spent 53,986 thousand euros of the capital contribution granted by the State for the provision of the universal postal service on the acquisition of different tangible fixed assets elements.

Of the total number of cancellations, 76,996 thousand euros correspond to tangible elements that have been cancelled by the Parent Company, as a consequence of being wholly amortised.

Of the corrections for depreciation made during the financial year in order to correct the value of certain elements of tangible fixed assets, we can highlight 8,988 thousand euros that have been provided in order to cancel the cost of certain Parent Company buildings that are undergoing comprehensive reforms to prolong their service life.

As at 31 December 2008, the Parent Company has signed contracts to purchase tangible fixed assets worth 131,349 thousand euros. Part of the acquisitions to be made by the Group in the financial year 2009 will be financed by the non-refundable capital contributions granted for the benefit of the Parent Company in the Spanish National Budget corresponding to the financial year 2009 (see note (14)). The Company has no final commitments of sale of assets of significant net book value.

The cost of the wholly depreciated items that formed part of the tangible fixed assets of Correos Group at 31 December 2008 amounts to 185,409 thousand euros.

The net book value of the dwellings, premises and plots of land making up the tangible fixed assets not involved in the operation amounts to 21,942 thousand euros, with their costs being 28,241 thousand euros.

Correos Group has insurance policies in place to cover those risks that could affect most of its tangible fixed assets.

■ (8) Property investments

The detail of movements during the financial year is as follows:

	Balance at 01/01/2008	Recordings and Provisions	Balance at 31/12/2008
Cost-			
Land	1,968	-	1,968
Built assets	6,439	45	6,484
Total cost	8,407	45	8,452
Accumulated amortisation-			
Built assets	(859)	(136)	(995)
Net book value	7,548		7,457

The property investments correspond to premises that the Parent Company has leased to third parties. The income from these contracts recorded in the Consolidated Profit and Loss Account has amounted to 482 thousand euros in the financial year 2008.

The expenses associated with the property investments fundamentally correspond to those related to their annual amortisation and the maintenance costs, these latter amounting to 231 thousand euros in the financial year 2008. All of the expenses are recorded in the Consolidated Profit and Loss Account on the basis of the accrual principle.

There are no restrictions on property investments or on the collection of the earnings deriving from these or from the resources obtained from their transfer or being made available by other means, apart from those mentioned in note (1) of this report under "Company activity".

There are no contractual obligations for the acquisition, construction or development of property investments or for repairs, maintenance or improvements.

The future minimum charges that cannot be cancelled for the operating leasing agreements associated with the property investments of the Group are broken down in the following table:

Thousands of euros	
Up to one year	265
Between one and five years	398
More than five years	-
	663

■ (9) Non-current assets held for sale

Correos Group has classified the land and built assets it owns which were for sale at 31 December 2008 as non-current assets held for sale. These assets, mostly dwellings and an industrial warehouse, were included in de-investment plans approved by the competent bodies and, at that date, effective actions were being carried out to sell them in the short term.

The book value of said assets at 31 December 2008 is 906 thousand euros.

■ (10) Stocks

The composition of this item at 31 December 2008 is as follows:

Thousands of euros	
Stocks valued at cost-	
Stamps in possession of third parties	6,197
Stamps at company offices and warehouses	2,417
Collectors' stamps	986
Other stocks	1,203
	10,803
Evaluative corrections for depreciation	(3,883)
	6,920

The movement of the evaluative corrections for depreciation of stocks during the financial year 2008 is as follows:

	Evaluative corrections		
	Stamps	Others	Total
Balance at 1 January	2,812	48	2,860
Evaluative corrections for depreciation	1,010	13	1,023
Balance at 31 December	3,822	61	3,883

Correos Group maintains the criterion of recording evaluative corrections for depreciation of stamps in the case of these still remaining in the Parent Company warehouses, either company or external, if two years have elapsed since their issue.

■ (11) Short-term financial assets

The short-term financial assets of Correos Group at 31 December 2008, other than cash and other equivalent liquid assets described in note (12) below, correspond to accounts receivable from clients, debtors, staff and government bodies and to deposits and guarantees established, according to the following breakdown:

	Thousands of euros
Trade debtors and other accounts receivable-	
Clients by sales and provision of services	373,833
Other debtors	13,189
Staff	10,541
Government bodies (Note 18)	10,256
	407,819
Short-term financial investments-	
Short-term deposits	92,653
Deposits and guarantees	9,733
	102,386

Most of the financial assets classified as short-term by Correos Group mature in less than one year, with there being no significant differences between the recorded book values and their reasonable values.

11.1.) TRADE DEBTORS AND OTHER ACCOUNTS RECEIVABLE

The headings “Clients by sales and provision of service” and “Other debtors” include 51,440 thousand euros of fees to be collected by the Parent Company from third-country postal operators for the provision of postal and telegraphic services.

The “Staff” heading contains the amounts delivered to different employees as advance payroll payments in accordance with a specific plan designed by the Parent Company and that are still pending recovery at the close of the financial year.

Likewise, the headings “Clients by sales and provision of services” and “Other debtors” are shown net of evaluative corrections for depreciation, with the movement taking place during the financial year 2008 being as follows:

	Evaluative corrections		
	Clients	Debtors	Total
Balance at 1 January	12,773	1,315	14,088
Provisions	3,633	1,636	5,269
Reversals	(3,454)	-	(3,454)
Balance at 31 December	12,952	2,951	15,903

In addition, Correos Group has recorded under the item “Losses, depreciation and variation in provisions for trade operations” of the Consolidated Profit and Loss Account an expense of 978 thousand euros due to a direct cancellation of defaulting debts.

11.2.) SHORT-TERM FINANCIAL INVESTMENTS

“Short-term deposits” records the principal of diverse fixed term deposits made by the Parent Company together with the accrued interest not due for sums of 90,000 and 2,653 thousand

euros respectively. These impositions mature at 5 May 2009 and accrue an annual interest rate of between 5.6% and 5.7%.

The short-term “Deposits and guarantees” item mostly records court bonds with various labour courts for actions brought by the employees and former employees of the Parent Company.

11.3.) INFORMATION ABOUT THE NATURE AND THE LEVEL OF RISK FROM FINANCIAL INSTRUMENTS

The risk management policies of the Parent Company are laid down by its Management Committee, after having been approved by its Directors. On the basis of these policies, the Planning and Finance Department of the Parent Company has laid down a set of procedures and controls that make it possible to identify, measure and manage the risks deriving from the financial instruments, which expose the Parent Company to credit, market and liquidity risks:

11.3.1) Credit risks

A credit risk occurs due to the possible loss caused by a breach of the contractual obligations of the Parent Company counterparts; that is, due to the possibility of not recovering the financial assets for the sum recorded in the set period.

The maximum exposure to credit risk of Correos Group at 31 December 2008 is as follows:

	Parent Company	Rest of companies	Correos Group total
Long-term financial investments	287	770	1,057
Clients by sales and provision of services	339,117	34,716	373,833
Other debtors	13,131	58	13,189
Short-term financial investments	102,292	94	102,386
Banks and lending institutions	285,606	1,703	287,309
	740,433	37,341	777,774

The different companies of Correos Group perform a solvency analysis for each one of its clients. These analyses are used for the concession or otherwise of contracts with postponed payment to clients. The authorisations for the signing of these contracts are segregated according to the amount of the credit.

The detail of the concentration of credit risks per counterpart under the “Clients by sales and provision of services” and “Other debtors” of Correos Group at 31 December 2008 is as follows:

	Parent Company		Rest of companies	
	Number of clients	Thousands of euros	Number of clients	Thousands of euros
Clients:				
With balance greater than 1,000 euros	39	118,553	1,648	33,845
With balance between 500 euros and 1,000 euros	47	32,531	651	469
With balance less than 500 euros	19,234	139,752	3,201	402
	19,320	290,836	5,500	34,716
Debtors	-	1,257	47	58
Foreign postal operators	180	51,440	-	-
Other financial assets	-	8,715	-	-
	> 19,500	352,248	5,547	34,774

The breakdown by date of service of the “Clients” and “Foreign postal operators” of the companies of Correos Group at 31 December 2008 is as follows:

	Parent Company		Rest of companies
	Clients	Foreign postal operators	Clients
Not due	148,925	35,588	29,754
Non-doubtful due:			
Less than 30 days	75,644	-	2,384
Between 30 and 60 days	29,506	1,755	800
Between 60 and 90 days	10,086	-	558
Between 90 and 120 days	3,744	-	442
Over 120 days	22,931	2,223	778
Provisional payments	-	11,874	-
	290,836	51,440	34,716
Doubtful	7,739	2,494	2,421
Corrections for depreciation	(7,739)	(2,494)	(2,421)
	-	-	-
	290,836	51,440	34,716

Parent Company “Clients” at over 120 days considered non-doubtful for the sum of 22,931 thousand euros corresponds in its entirety to accounts receivable from public institutions.

The provisional payments correspond to sums paid by the Parent Company to other foreign operators for the provision of their postal services prior to definitive settlement.

In addition, the Parent Company has streamlined the cash flow surpluses during the financial year 2008, following the procedure prepared for such purposes, which is principally based on the following points:

- An annual budget is in place and an analysis of the cash flows generated has been performed, and the operating balances and the cash flow surpluses have been determined, establishing the limits of the amount and investment period for these surpluses.

- The assets used have been current accounts with high remuneration and fixed term deposits, the latter never maturing in more than one year.
- According to the aforesaid procedure, the financial entities with which a risk is maintained, for financial operations, must have a credit rating equal to or greater than A3 issued by Moody's, or equivalent issued by any other rating agency. In addition, a risk analysis has been carried out for each one of the financial entities, through which the maximum degree of exposure to be assumed with each has been determined.

11.3.2) Market risk

The market risk occurs due to the possible loss caused by variations in the reasonable value or future cash flows of a financial instrument due to changes in market prices. The market risk includes the interest rate risk, exchange rate risk and other price risks.

Interest rate risks

The interest risk takes place due to the possible loss caused by variations in the reasonable value or in future cash flows of a financial instrument due to changes in market interest rates.

Given that practically all financial assets and liabilities of Correos Group have maturity at less than twelve months, the exposure of these to interest rate risk is not significant.

Exchange rate risks

An exchange rate risk takes place due to the possible loss caused by variations in the reasonable value. The exposure of Correos Group to the risk of exchange rate fluctuations is due primarily to sales made in currencies other than the functional currency. These balances are derived from the services rendered to and by foreign postal operators and from the provision of the international money order service.

In this regard, the Group's exposure to this risk largely corresponds to the accounts receivable and payable deriving from international mail. Given that the net of these balances at 31 December 2008 amounts to 1,452 thousand euros, this risk is not significant.

11.3.3) Liquidity risks

A liquidity risk occurs due to the possibility of Correos Group not having liquid funds or access to liquid funds available, in a sufficient amount and at the right cost, to meet its payment obligations at all times. The objective of the Group is to maintain the necessary liquid availability.

The details of the short-term financial assets and liabilities of the Group at 31 December 2008, and by difference, its ability to meet its payment obligations in the short-term are as follows:

Thousands of euros

Short-term financial assets:

Clients by sales and provision of services	373,833
Other debtors	13,189
Financial investments	102,386
Banks and lending institutions	324,665

Short-term financial liabilities:

Short-term debts	(103,528)
Trade creditors and other accounts payable	(374,225)

336,320

■ (12) Cash and other equivalent liquid assets

The composition of this item at 31 December 2008 is as follows:

Thousands of euros

Cash	37,356
Banks and lending institutions	286,664
Accrued interest not due	645

324,665

■ (13) Equity

The details of the movement of Correos Group equity is shown in the Statement of Changes in the Consolidated Net Assets, an integral part of the Consolidated Annual Accounts.

According to the proposal for distribution of the consolidated profit for financial year 2007 presented by the Directors of the Parent Company, dated 4 July 2008, the Parent Company paid its Sole Shareholder a dividend for the sum of 51,958 thousand euros.

A) REGISTERED CAPITAL

The share capital of the Parent Company is represented by 611,521 shares with a nominal value of 1,000 euros each. The same political and economic rights apply to all shares, and they are wholly subscribed and paid in by the Central Government, through the Directorate General for State Assets.

B) SHARE PREMIUM ACCOUNT

The share premium account, created at the time of incorporation of the Parent Company, is subject to the same restrictions and may be used for the same purposes as the Company's voluntary reserves, including conversion to share capital.

C) LEGAL RESERVE

Pursuant to Article 214 of the consolidated text of the Companies Act, enacted by Legislative Royal Decree 1564/1989, of 22 December, a figure equal to 10% of the profit for the financial year must be allocated to the legal reserve until a minimum of 20% of the share capital is attained.

The legal reserve can only be used to increase the share capital in the part of its balance that exceeds 10% of the capital already increased. Except for the purpose mentioned above, and as long as 20% of the share capital is not exceeded, this reserve will only be used to offset losses, provided that there are no other sufficient reserves available for this purpose.

D) VOLUNTARY RESERVES AND RESERVE REQUIRED BY THE ARTICLES OF ASSOCIATION

As at 31 December 2008, voluntary reserves may be freely disposed of.

Under the Parent Company's Articles of Association, the Company must allocate 20% of profits for the year to reserves required by Articles of Association. As at 31 December 2008, these reserves may be freely disposed of as decided by the Governing Board of the Parent Company pursuant to article 36 of its Articles of Association.

E) OTHER RESERVES OF THE PARENT COMPANY

This item reflects the reserves generated by certain consolidation adjustments in the past, particularly, elimination of the provision for amortisation of financial investments and accumulated amortisations of consolidation goodwill up to 31 December 2005.

F) RESERVES AT CONSOLIDATED COMPANIES

The detail as at 31 December 2008 is as follows:

	Thousands of euros		
	Balance at 01/01/2008	Result 2007	Balance at 31/12/2008
Correos Telecom, S.A.	1,693	479	2,172
Correo Híbrido, S.A.	347	511	858
Chronoexpres, S.A.	(157,572)	(7,117)	(164,689)
	(155,532)	(6,127)	(161,659)

G) CONSOLIDATED RESULTS OF CORREOS GROUP

The Correos Group consolidated result for 2008 is as follows:

	Thousands of euros		
	Individual results	Consolidation adjustments	Consolidated results
Correos y Telégrafos, S.A.	77,932	-	77,932
Correos Telecom, S.A.	113	-	113
Correo Híbrido, S.A.	222	-	222
Chronoexpres, S.A.	1,000	-	1,000
	79,267	-	79,267

(14) Government contributions, donations and legacies received

The Parent Company annually receives a capital contribution included in the Spanish National Budget, used to finance part of the acquisitions of assets and which are necessary for the USO to be provided. The detail of the contributions received in 2008 is as follows:

	Thousands of euros
Initial balance at 1 January	412,556
Contribution collected	52,934
Contribution pending collection (Note 18)	4,812
Total contributions granted	57,746
Tax effect	(17,324)
Allocation to the Profit and Loss Account	(48,466)
Tax effect	14,533
	(51,257)
Final balance at 31 December	419,045

At 31 December 2008, the Parent Company had 4,812 thousand euros of the total capital contribution granted pending collection. The Parent Company meets the requirements associated with the grant of capital contributions, and expects to meet the requirements for entitlement to such subsidies.

Likewise, the 2009 Spanish National Budget considers granting the Parent Company 14,620 thousand euros as a capital contribution for acquiring the assets necessary to provide the USO during the coming financial year.

■ (15) Provisions and other contingent liabilities

The detail of movements during financial year 2008 is as follows:

	Provision for taxes	Provision for claims from the staff	Provision for court actions	Other provisions	Total
Balance at 1 January 2008	2,343	25,121	50,004	1,407	78,875
Provisions	256	20,832	2,819	625	24,532
Applications / payments	(1,537)	(1,764)	(13,076)	(20)	(16,397)
Reversals / excesses	(140)	(5,298)	(750)	(97)	(6,285)
Balance at 31 December 2008	922	38,891	38,997	1,915	80,725

The provisions for the financial year, amounting to 24,532 thousand euros, have been made debiting the Consolidated Profit and Loss Account according to their nature.

The origin of the applications lies in court decisions that have been unfavourable for Correos Group during the financial year 2008 and which have involved the effective payment of certain amounts and the application of the relevant provisions debiting the Consolidated Profit and Loss Account, depending on their nature.

The reversals have been made debiting different accounts depending on their nature, except for 987 thousand euros which have been made with the payment of the "Excess on provisions" line of the Consolidated Profit and Loss Account.

PROVISION FOR CLAIMS FROM THE STAFF

The balance of this provision at 31 December 2008 records the estimated sums to be paid for claims and court actions, in employment-law proceedings against the Parent Company.

PROVISION FOR COURT ACTIONS

The balance of this provision at 31 December 2008 fundamentally contains the estimated sums to be paid in respect to penalty proceedings in the *Tribunal de Defensa de la Competencia* (Competition Court) – against which the Company appealed.

■ (16) Financial liabilities

The short-term financial liabilities of Correos Group at 31 December 2008 correspond to accounts payable to suppliers, creditors for the purchase of fixed assets, other creditors, staff and government bodies, as well as to deposits and guarantees established, following this breakdown:

Thousands of euros

Short-term debts:

Creditors for fixed assets	82,408
Money order deposits	14,267
Deposits and guarantees	5,339
Creditors for financial leasing	1,354
Other short-term debts	160
Total short-term debts	103,528

Trade creditors and other accounts payable:

Suppliers	2,238
Other creditors	259,072
Staff (accrued wages and salaries)	28,840
Current tax liabilities (Note 18)	1,691
Other debts with government bodies (Note 18)	52,113
Customer advances	30,271
Total trade creditors and other accounts payable	374,225

Total	477,753
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Most of the financial liabilities classified as short-term by Correos Group mature in less than one year, with there being no significant differences between the recorded book values and their reasonable values.

The “Money order deposits” include money orders accepted prior to 31 December 2008 and pending payment by the Parent Company to their recipients at that date.

The heading “Other creditors” includes the amounts charged by the Parent Company for third parties and the sum for the provision for volume discounts for the sums of 36,959 and 17,672 thousand euros respectively.

Likewise, the headings “Other creditors” and “Customer advances” include 72,514 thousand euros whose origin lies in the obligations pending the Parent Company’s payment to third-country different postal operators for postal and telegraphic services received.

■ (17) Income and expenses

A) NET TURNOVER

The distribution of the Correos Group turnover corresponding to its ordinary activities by activity category, as well as by geographical markets, for the financial year 2008 is as follows:

Thousands of euros

Segmentation by category of activities-

Provision of postal, telegraphic and parcel services	2,205,624
Earnings from provision of services to third parties and provision of banking services	14,908
Earnings from money transfer	29,730
Sale of philatelic products	33,840
Other services	12,060
Total	2,296,162

Segmentation by geographical markets-

National	2,296,162
Total	2,296,162

The heading “Provision of postal and parcel services” is shown net of the volume discounts figure for those granted by Correos Group to its clients during the financial year for the sum of 19,307 thousand euros.

B) CONSUMPTION OF MERCHANDISE

The breakdown of the entry of “Consumption of merchandise” of the attached Consolidated Profit and Loss Account during the financial year is as follows:

	Thousands of euros
National purchases of merchandise:	
Stamps and other franking signs	11,762
Other products	7,419
Increase in stocks	(3,595)
Consumption of merchandise	15,586

C) OPERATING CONTRIBUTIONS

During the financial year 2008, the Parent Company received operating contributions in order to offset the deficit associated with the provision of the universal postal service and for the training of its employees for sums of 37,004 and 627 thousand euros respectively.

Likewise, the 2009 Spanish National Budget considers granting the Parent Company 60,601 thousand euros as an operating contribution associated with providing the universal postal service during the upcoming financial year.

D) SOCIAL SECURITY CONTRIBUTIONS

The breakdown of the heading “Social security contributions” for the financial year ending at 31 December 2008 is as follows:

	Thousands of euros
Contributions to pension plans	13,429
Other social security contributions	220,553
	233,982

“Contributions to pension plans” records a sum of 13,427 thousand euros corresponding to the contribution made by the Parent Company during the financial year by virtue of the Correos y Telégrafos Pension Plan of 26 September 2000 (see note (5-0)).

E) EXTERNAL SERVICES

The breakdown of the heading “External services” for the financial year ending at 31 December 2008 is as follows:

	Thousands of euros
Leases	41,224
Repairs, preservation and maintenance	65,484
Independent professional services	66,401
Transport expenses	178,554
Advertising, marketing and public relations	14,007
Supplies	37,454
International mail expenses	51,616
Other expenses	69,971
	524,711

The future minimum payments that cannot be cancelled originating in operating lease contracts the different companies of Correos Group have signed are broken down in the following table:

	Thousands of euros
Up to one year	19,823
Between one and five years	11,824
More than five years	15,448
	47,095

“Independent professional services” includes 14,169 thousand euros corresponding to the cost accrued for partner entities’ fees. These entities are retained by the Parent Company under contract to promote, disseminate, market and reinforce postal services on behalf of the Company, and

to conduct collection, processing, franking, sorting and transport of postal items for deposit at Company facilities. Likewise, this heading includes 23,619 thousand euros in security expenses.

“International mail expenses” includes the costs that the postal operators from different countries invoice to the Parent Company in relation to the provision of postal and telegraphic services whose recipients reside in those countries.

F) TAXES

The heading “Taxes” records the effect of the restatement of the pro rata figure determined for investment assets at the Parent Company. This restatement has meant recording an earning of 3,540 thousand euros during 2008 (see note (5-r)).

G) FINANCIAL INCOME AND EXPENSES

The breakdown of this heading for the financial year 2008 is as follows:

	Thousands of euros
Financial income-	
Third-party interests:	
Short-term deposits	14,388
Other financial income	7,593
	21,981
Financial expenses-	
Other financial expenses	214
Updating provisions	1,073
	1,287

The amount of the revenue accrued by the Parent Company originating in fixed term deposits carried out during the financial year is recorded in “Short-term deposits”.

■ (18) Tax situation

The detail of the balances maintained by the Group in government bodies at 31 December 2008 is as follows:

	Thousands of euros
Non-current assets-	
Deferred tax assets	18,092
Current assets-	
Current tax assets	2,206
Other credits with government bodies:	
Capital contributions pending collection	4,812
Operating contributions pending collection	3,084
Other	154
	8,050
	10,256
	(note 11)
Non-current liabilities-	
Deferred tax liabilities	181,832
Current liabilities-	
Corporation Tax (note 16)	1,691
Other debts with government bodies (Note 16):	
IRPF (personal income tax)	18,353
VAT	5,226
Social Security	20,955
MUFACE (public employee mutual society) and liabilities fees	4,391
Customs	1,993
Other	1,195
	52,113
	53,804

The Corporation Tax is calculated using the book result, obtained by applying generally accepted accounting principles. It does not necessarily have to coincide with the fiscally determined taxable base.

The reconciliation of the consolidated book result for the financial year 2008 and of the earnings and expenses directly allocated to the Consolidated Net Assets with the aggregate fiscally taxable base of the Corporation Tax of the different companies of Correos Group is as follows:

Consolidated Profit and Loss Account			
	Increases	Decreases	Total
Consolidated result before tax			108,562
Permanent differences:			
Correos, S.A.	595	(38)	(557)
Chronoexpres, S.A.	590	(2,574)	(1,984)
Temporary differences over the financial year:			
Correos, S.A.	16,545	-	16,545
Correo Híbrido, S.A.	180	(169)	11
Temporary differences over previous financial years:			-
Correos, S.A.	-	(2,961)	(2,961)
Correos Telecom, S.A.	-	(4)	(4)
			120,726
Income and expenses directly allocated to Consolidated Net Assets			
	Increases	Decreases	Total
Adjustments of conversion to the GAAP			(20,430)
Consolidation adjustments	-	-	10,090
Permanent differences:			
Correos, S.A.	-	(4,973)	(4,973)
Chronoexpres, S.A.	490	-	490
Correo Híbrido, S.A.	80	-	80
Temporary differences over the financial year:			
Correos, S.A.	14,822	(52)	14,770
			27
Aggregate taxable base (aggregate tax result)			120,753

As permitted by the twenty-eighth temporary provision of the Legislative Royal Decree 4/2004, of 5 March, whereby the consolidated text of the Corporation Tax Act, added by *Ley 4/2008, de 23 de*

diciembre, was passed into law, the companies of Correos Group have opted to integrate the tax effect of the charges and payments made against reserves deriving from the application of the Spanish GAAP in parts that are equal to the taxable base corresponding to each one of the first three tax periods initiated at 1 January 2008, the date of the conversion to the Spanish GAAP.

The effective aggregate tax expense and the aggregated Corporation Tax expense are calculated as follows:

	Consolidated Profit and Loss Account	Income and expenses directly attributed to the Consolidated Net Assets
Aggregate result before tax	108,562	-
Income and expenses directly allocated to Consolidated Net Assets	-	(20,430)
Consolidation adjustments	-	10,090
Applicable taxable rate	30%	30%
Theoretical taxable charge	32,569	(3,102)
Effect of:		
Non-calculable income		(1,492)
Non-deductible expenses	199	-
Deductions	(3,118)	-
Other	(330)	147
Effective aggregate taxable expense	29,320	(4,447)
Detail effective taxable expense:		
Current taxes	33,397	8
Deferred taxes	(4,077)	(4,431)
Adjustment 2007 Corporation Tax estimate	(25)	-
Corporation Tax expense	29,295	-

The calculation of the Corporation Tax pending payment and collection at 31 December 2008 is as follows:

	Current tax creditor	Current tax debtor
Aggregate current tax	33,268	137
Withholding tax and prepayments	(31,577)	(239)
Balance with government bodies	1,691	(200)

The movement of the assets for temporary differences of the Group in the recognition of expenses and earnings for accounting and tax purposes and the corresponding accumulative taxable effect is as follows:

Temporary assets	Balance at 01/01/2008	Additions	Restate- ments	Application GAAP	Reversal	Balance at 31/12/2008
Temporary differences	29,181	16,708	2,912	14,907	(3,403)	60,305
Tax effect:						
Temporary differences	8,614	5,013	874	4,472	(923)	18,050
Credits for deductible losses	140	-	-	-	(98)	42
	8,754	5,013	874	4,472	(1,021)	18,092

The detail of the assets and liabilities for deferred tax is as follows:

Thousands of euros

Temporary differences:

Provision liabilities	9,659
Provisions related to fixed assets	4,973
Excess of amortisation of fixed assets	3,231
Other	229
Deferred tax assets	18,092

Temporary differences:

Tax effect of the capital contributions	179,591
Deferred tax effect conversion to the GAAP	2,018
Other	223
Deferred tax liabilities	181,832

Current laws and regulations establish that taxes may not be deemed finally settled until filed tax statements have been inspected by the tax authorities or there elapses a limitation period of four years. At 31 December 2008, the companies that make up Correos Group had all applicable taxes since December 2004 open to inspection by the tax authorities, except corporation tax, which is open to inspection since 1 January 2004. Directors of the Company do not expect significant additional liabilities to emerge in any inspection procedures.

Under the *Ley del Impuesto sobre Sociedades* (the Corporation Tax Act), if a taxable base is found to be negative, its amount may be offset within the fifteen financial years following the year of the loss; the amount of the offset may be distributed as the taxpayer sees fit. The offset must be effected upon filing a Corporation Tax statement, and is subject to the tax authorities' power of verification. As at 31 December 2008, Group companies had the following losses from previous years to offset against future taxable profits:

Maximum offset period	Thousands of euros	
	Chronoexpres, S.A.	Correo Híbrido, S.A.
2010	91	-
2011	813	-
2012	1,820	-
2013	1,367	-
2014	2,426	-
2015	1,301	-
2016	11,138	-
2017	19,350	-
2018	52,569	83
2019	38,871	135
2020	22,011	-
2021	11,179	-
2022	9,769	-
2023	1,423	-
	174,128	218

The tax credits corresponding to the negative taxable bases of Correo Híbrido, S.A., which are recorded in the attached Consolidated Balance Sheet, amount to approximately 130 thousand euros.

■ (19) Other information

A) NUMBER OF EMPLOYEES

The breakdown of the average Group staffing levels during financial year 2008 is as follows:

Average staff	
Senior executives	25
Rest of workforce:	
Civil servants	29,684
Employees under ordinary contracts	37,952
	67,661

At 31 December 2008, the number of employees of Correos Group distributed by categories and gender is as follows:

	Men	Women	Total
Senior executives	23	3	26
Rest of workforce:			
Civil servants	20,810	7,882	28,692
Employees under ordinary contracts	14,863	21,481	36,344
	35,696	29,366	65,062

B) COMMITMENTS AND CONTINGENCIES

At 31 December 2008, the guarantees provided on behalf of the Parent Company of the Correos Group by various banks amounted to 28,730 thousand euros. The rest of the companies pertaining to the Group do not have guarantees or warranties granted for third parties for a significant amount. The Directors of the Parent Company believe that any additional liabilities that may arise from the guarantees provided to third parties will not be in any way significant.

C) FEES OF ACCOUNTS AUDITORS AND GROUP AND ASSOCIATED COMPANIES

Additional item fourteen of the *Ley 44/2002, de 22 de noviembre, de Medidas de Reforma del Sistema Financiero* (the Financial System Reform Act), creates a duty of compliance with principles of transparency regarding remuneration to auditors. KPMG Auditores, S.L., and other companies with which it has ties, have invoiced the Correos Group during the financial year 2008 for the following fees and expenses for professional services:

	Thousands of euros
For auditing services	383
For other services	146
Total	529

■ (20) Directors and senior management of the Parent Company

The members of the Governing Board and of the Management Committee of the Parent Company, along with the legal persons or private individuals they represent, have not participated in uncommon and/or relevant transactions with Group companies during the financial year 2008.

The members of the Parent Company Governing Board, along with the legal persons or private individuals they represent, have not participated in uncommon and/or relevant transactions of Correos Group during the financial year 2008.

20.1.) REMUNERATIONS AND OTHER BENEFITS OF THE DIRECTORS AND OF THE MEMBERS OF THE MANAGEMENT COMMITTEE OF THE PARENT COMPANY DURING THE FINANCIAL YEAR 2008

Pay accrued for all items during financial year 2008 by members of the Parent Company's Governing Board and Management Committee totalled 1,431 thousand euros, 234 thousand of which correspond to allowances for support to the Governing Board, and the rest of the amounts paid as salaries.

At 31 December 2008, no member of the Parent Company's Governing Board or Management Committee maintained balances receivable or payable with the same nor did it have obligations contracted with them concerning pensions and/or life insurance.

20.2.) OTHER INFORMATION RELATING TO THE GOVERNING BOARD

The members of the Parent Company Governing Board own no shares, nor hold office or carry out functions in companies whose objects are identical, similar or complementary to the objects of the Parent Company, according to their written disclosures.

As at 31 December 2008, the Governing Board of the Parent Company was made up of 12 men and 6 women.

■ (21) Environmental information

As at 31 December 2008, there were no significant assets given over to environmental protection and improvement, nor have any significant expenses of that nature incurred during the year. Likewise, during the financial year ending at 31 December 2008, no environmental contributions were received.

Directors of the Parent Company take the view that no contingencies exist in connection with environmental protection and improvement, and therefore do not think it necessary to allocate any environmental items to the provision for risks and charges as at 31 December 2008.

■ (22) Aspects deriving from the transition to the new accounting regulations

The adjustments deriving from the conversion to the new Generally Accepted Accountancy Principals on the date of the transition to this selected by the Parent Company, 1 January 2008, are as follows:

	Note	Thousands of euros
Consolidated Net Assets at 31 December 2007 according to the Generally Accepted Accountancy Plan of 1990		1,518,712
Conversion adjustments to the new Spanish GAAP:		
Classification of capital contributions as Net Assets	i	412,556
Adjustments against reserves:		
Allocation of provisions for tangible fixed assets	ii	(11,029)
Cancellation of long term creditors (*)	iii	4,973
Allocation of "Provisions for risks and charges"	iv	(6,355)
Other adjustments in Chronoexpres, S.A. (*)	v	(490)
Other adjustments in Correo Híbrido, S.A.	vi	(56)
Total adjustments against reserves		(12,957)
Consolidated Net Assets at 1 January 2008 according to the new Spanish GAAP (2007)		1,918,311

(*) Adjustments with no tax effect.

I) CLASSIFICATION OF CAPITAL CONTRIBUTIONS IN THE NET ASSETS

The Parent Company has historically complied with the necessary conditions in order for the capital contributions that it has been granted in the past to be able to be considered as non-refundable. Hence, on the date of transition to the new Spanish GAAP, the amount of the contributions received has been included in the Consolidated Net Assets, once the corresponding taxable effect has been deducted.

II) ALLOCATION OF PROVISIONS FOR TANGIBLE FIXED ASSETS

On the date of the transition to the new Spanish GAAP, the Parent Company discovered that the elements of its tangible fixed assets that formed part of the telecommunications network that was leased to its subsidiary Correos Telecom, S.A. in 2007 showed signs of depreciation as

a consequence of their value that can be recovered, which is the current value of the future cash flows that said assets are expected to generate, is lower than the net book value. As a consequence of this circumstance, the Parent Company has made the provisions described herein against reserves net of their tax effect.

III) CANCELLATION OF THE “MONEY ORDER SERVICE START-UP FUND”

With the application of the new Spanish GAAP, the liability known as “Money order service start-up fund” that was recorded in the balance sheet of the Parent Company at 31 December 2007 cannot be considered to be a demandable liability. Therefore, this has been cancelled against reserves, net of its tax effect, at the date of the transition to the new Spanish GAAP.

IV) PROVISIONS FOR RISKS AND CHARGES

At the time of the conversion to the new Spanish GAAP on 1 January 2008, the Parent Company concluded that, in accordance with the criterion of recording of the provisions for risks and charges that emanates from this, it was necessary to make provisions for a sum higher than that recorded up to that time so as to meet the valid expectations created by the company with respect to third parties deriving from a lawsuit brought by a staff member. For this reason, the Parent Company made a greater provision against reserves, net of its tax effect.

V) OTHER ADJUSTMENTS

At 1 January 2008, the date of transition to the new Generally Accepted Accounting Principals, the different companies in which the Parent Company holds a stake and that belong to Correos Group recorded different assets and liabilities resulting from the application of the Royal Decree 1514/2007 that enacted it, net of its tax effect, with the exception of those made by the company Chronoexprés, S.A. in which a stake is held, highlighting: the cancellation of the start-up costs, updating of the deposits and guarantees that do not accrue a market interest rate to a reasonable value, and accounting of the machinery acquired by means of a financial leasing contract at the lesser figure of their market price and the current value of the minimum future payments.

The Consolidated Balance Sheet and the Consolidated Profit and Loss Account, which formed part of the Company’s Consolidated Annual Accounts for the financial year ending 31 December 2007 which were drawn up by its Government Board on 28 March 2008, and approved by the Company’s Sole Shareholder on 19 May 2008 are included below:

a) Balance Sheet of Consolidated Annual Accounts of the Company corresponding to the financial year ending at 31 December 2007:

Assets	Balance at 31/12/07
<hr/>	
Fixed assets	
Start-up expenses	466
Intangible fixed assets	30,646
Tangible fixed assets	1,701,514
Financial fixed assets	1,206
Total fixed assets	1,733,832
<hr/>	
Deferred charges over several years	2,485
<hr/>	
Current assets	
Stocks	4,348
Debtors	400,460
Short-term financial investments	221,715
Cash flow	290,904
Accrual adjustments	2,105
Total current assets	919,532
<hr/>	
Total assets	2,655,849
<hr/>	

Liabilities	Balance at 31/12/07
Equity	
Share capital	611,521
Share premium account	281,003
Reserves	521,707
Profit attributable to Parent Company shareholders:	
Consolidated profits	104,481
Total equity	1,518,712
Deferred income over several years	589,355
Provisions for risks and charges	71,180
Long-term creditors	10,919
Short-term creditors	
Bank debt	624
Trade creditors	270,957
Other non-trade creditors	194,102
Total short-term creditors	465,683
Total liabilities	2,655,849

b) Profit and Loss Account of the Consolidated Annual Accounts of the Company corresponding to the financial year ending at 31 December 2007:

Expenses	Financial year 2007
Operating expenses	
Procurement	22,430
Staff costs	1,558,514
Allocations to fixed asset amortisation	113,292
Trade provisions variation	(1,331)
Other operating expenses	492,443
Total operating expenses	2,185,348
Operating profit	77,682
Financial and similar expenses	1,035
Losses on exchange	1,847
Total financial expenses	2,882
Positive financial results	25,423
Profit on ordinary activities	103,105
Fixed asset provisions variation	(3,705)
Losses from fixed assets	1,660
Other extraordinary charges	3,341
Total extraordinary losses and charges	1,296
Positive extraordinary results	47,188
Consolidated profit for the year before tax	150,293
Corporation Tax	45,812
Profit for the year attributable to Parent Company	104,481

Revenue	Financial year 2007
Operating revenue	
Net turnover	
Net sales of goods and services	2,269,143
Returned goods and volume discounts	(15,795)
Other operating revenue	
Other income from ordinary activities	3,059
Operating contributions	1,875
Excess on provisions for risks and charges	4,748
Total operating revenue	2,263,030
Other interest and similar income	22,236
Gains on exchange	6,069
Total financial income	28,305
Profit on disposals of fixed assets	402
Capital contributions transferred to results	42,802
Other extraordinary income	5,280
Total extraordinary profits and income	48,484

Management Report

■ (A) Progress of the business and future risks for the Parent Company

The European postal sector – the Spanish sector in particular – is in the midst of a process of change and transformation. This sector has attained a high level of maturity, with decreases in mail volumes and whose effect has been accelerated by the overall economic situation. The effects of this scenario on Correos' business are described below.

This trend in the postal market is mainly due to:

A.1.) TECHNOLOGICAL PROGRESS OF OPERATORS AND CUSTOMERS

This is primarily fuelled by the emergence and penetration of electronic systems posited as replacements of or alternatives to traditional mail. Our business will depend on properly managing technological uncertainty, perhaps through adapting to the new technological environment. On first analysis, however, it appears more likely that mail volumes will fall away due to postal services being replaced by electronic services. The effect may be felt more intensely in the future, with increased penetration of the Internet through better technological support, better access quality, lower prices and generational replacement, as it could possibly lead to a net decrease in the volume of mail items, exacerbated by the overall economic situation.

Secondly, this is due to cost-saving initiatives by clients, caused by their processes becoming more sophisticated and the austerity plans implemented as a response to the economic crisis. This increasing sophistication involves not only new communication technologies, but also better management of postal expenditure using a range of technological tools – better databases, messages bundled in fewer postal items, electronic invoicing, etc. All this makes for fewer postal items to meet customers' communication needs.

In the face of this, to become less dependent on its traditional postal business Correos continues to intensify its diversification initiatives.

A.2.) REGULATION

Regarding the liberalisation of the European postal market and its effect on the Spanish postal sector, we can highlight the following:

- The EU postal reform initiated over fifteen years ago has sought the harmonised undertaking of the internal market for postal services by means of a progressive reduction in monopolies and the guarantee of a universal postal service that addresses the needs of citizens and businesses.
- The European Union only had to set a final deadline for the full opening of the postal sector.
- The most significant item of the Directive 2008/6/EC has been the setting of a definitive date for the disappearance of the special or exclusive rights no later than 31 December 2010 (except for eleven countries that could postpone these by two years), in turn maintaining the most significant provisions of the previous regulations, above all those referring to the obligations of a universal service.
- Two of the most debated issues throughout the entire process of the preparation of the Third Postal Directive were guaranteeing the provision of a universal postal service and its funding.
- Its implementation could have an effect on the level of quality and on the national price uniformity. The reason is that costs are different depending on what the delivery and distribution densities of the diverse regions are, or according to the specific activity of the universal service that is carried out, since serving a large urban centre, for example, is not the same as serving a rural area, nor is transporting mail items the same as distributing them. This latter activity represents over 50% of the total cost of the postal process.
- In relation to the second question of interest, funding the universal postal service, it should be pointed out that one of the most immediate effects of the application of the Third Postal Directive for operators which until now have been universal postal service suppliers is the disappearance of the reserve. This is a mechanism which, in general terms, has been used in order to guarantee a quality service that is affordable and accessible. On the other hand, the new operators will foreseeably only focus their business towards the most profitable segments, leaving the less productive ones to those responsible for the providing the universal service. At the outset, both factors will have a potentially negative effect on the income base of national operators.
- In this respect, during the process of the preparation of the Third Postal Directive a group of countries requested that properly defined, long-term and proven measures be established to compensate for the costs of the USO, as well as to guarantee present and future investments, and to ensure business viability and employment.

- In short, in order to ensure and fund the universal postal service, the Third Postal Directive proposes diverse options which are subject to very different applications in the national field. The approval of these in 2008 has constituted a decisive step in EU postal reform, but the last phase will only conclude when the Member States transpose it to their internal regulations, ensuring the effective configuration of a homogenous market.
- The process of liberalisation has encouraged the emergence of new competitors in the market. In Spain, competition is developing increasingly, taking the form of widespread consolidation among competitors and, in particular, the entry to the Spanish postal market of the main international operators. In recent years the major European postal operators have wholly or partly acquired companies operating in Spain in the express, transport and postal services sectors.
- In addition, in the last two years, a number of regulatory changes have exacerbated uncertainty in Spain. The regulations on access to the postal network are a key issue. The relevant Royal Decree prescribes, as a first step, the creation of provisional benchmark terms and conditions of access by postal operators to the public operator's network. During 2008, Correos signed agreements with operators to access its network which are based on the established benchmark terms and conditions.

A.3.) FORECAST EFFECT ON CORREOS' FUTURE VOLUMES

Up to the 1990s, the growth of mail volumes was closely tied to economic growth. This assertion was confirmed by a wide range of studies, including those conducted by the Universal Postal Union. In periods of stability with no emergence of new technologies, there is a strong correlation between economic growth and mail volumes behaviour. The growth of Correos' mail volumes has been continuously slowing down in recent years, and in the last half of the year growth was negative due to the economic crisis. Since the tendency is shifting, we need to seek new points of reference to forecast future mail volumes in a mature market that is losing activity.

This estimate mainly reflects the new behaviour brought about by technological substitution; we should also factor in the effects of liberalisation and the concomitant increase in competitors, as described below.

A.4.) OPERATOR RESPONSIBLE FOR THE PROVISION OF THE UNIVERSAL POSTAL SERVICE

The universal postal service is the set of postal services of a specified quality provided permanently (regularity) at all points of national territory (universality) at affordable prices. The obligation to regularly reach all points of national territory requires the existence of facilities, points of access and products that are often unprofitable in business terms, but necessary from a public-service perspective.

The distinctive feature of Correos as against its present and future competitors is, precisely, its duty as the operator providing universal postal service with increasing obligations, as opposed to its competitors' freedom of action.

The market therefore faces an evolving, changing form of provision of universal postal service which will crucially influence the public operator. Correos will operate on terms of open competition with the rest of operators in an industry which must accommodate new technologies and bring in new processes to encourage accessibility, adapt to changes in service and market demand and tailor its offering to users' emerging needs and to new social habits and demographic environments. This will entail an intense innovation and investment effort, especially in technology, transport and distribution staff, and will make it necessary to undertake an overall restructuring of costs.

■ (B) Progress of business and future risks of the rest of the Correos Group companies

The Correos Group companies dependent on the Parent Company are aware of the business risks they face and take appropriate action to monitor and manage those risks. The most relevant market risks identified are:

- Market risk: Entry of new competitors, changes in the demand for services, price tensions, especially the price of fuel and new requirements in service quality levels.
- Technological risk: The new technologies as a channel for new competitors to enter businesses in which they operate and as added value to the services they already provide.
- Credit risk associated with financial costs and the debt for trade operations.
- Macro-economic environment risk deriving from the current national and international economic situation that could have a bearing on market behaviour.

■ (C) Quality in the provision of postal services

The quality in the provision of postal services, the most significant of Correos Group services, is measured from the moment the item is postmarked to the first dispatch for delivery. According to its internal monitoring of delivery times, Correos Group presents the following results:

- 80.1% of the basic line items are delivered on the first day.
- In the economy line, 82.8% of the items are delivered within four days.

In 2008, as in recent years, Correos Group has sought to fulfil the reference framework of strategic lines of action, with a focus on enhancing quality across all its products and services and on efficiency, as required by the Parent Company's state-owned nature and by the market itself.

Correos multi-annual plans act on four key axes: the Accessibility Plan; the Delivery Quality Plan; the Infrastructure Plan; and the Integra IT Project, which aims to set up an integrated technological platform to support all of the Parent Company's processes and areas of activity.

These plans are supplemented by others of an instrumental nature, including the Human Resources Plan aimed at employee skills upgrading, training and motivation; the Equipment and Resources Plan to continue automating the processing of postal items and improving material resources; and the Marketing Plan to offer the best solutions for customers' needs.

■ (D) Other topics

Correos Group does not hold treasury shares, has had no research and development expenditure and has not concluded transactions with financial derivatives in 2008.

Declaration of the Governing Board

■ **Consolidated Annual Accounts and Management Report for the financial year 2008 of Sociedad Estatal Correos y Telégrafos, S.A. and subsidiary companies**

The preceding Consolidated Annual Accounts of Sociedad Estatal Correos y Telégrafos, S.A., which comprise the Consolidated Balance Sheet, the Consolidated Profit and Loss Account and the Consolidated Annual Accounts Report corresponding to the financial year closed at 31 December 2008, together with the Consolidated Management Report corresponding to the same year, were submitted for approval by the Governing Board of Sociedad Estatal Correos y Telégrafos, S.A. on 26 March 2009. In accordance with current provisions, the administrators sign and give their conformity with all the abovementioned documents.

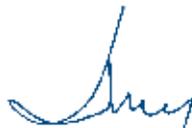
Madrid, 26 March 2009



Sixto Heredia Herrera



Francisco Cadarso González



D. Diego Chacón Ortiz



José Luis Díez García



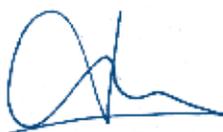
Dña Mercedes Díez Sánchez



M.ª Jesús Figa López-Palop



Fernando Irurzun Montoro



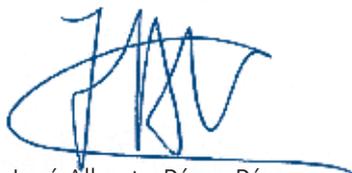
Cristina Latorre Sancho



Dionisia Manteca Marcos



Felipe Martínez Martínez



José Alberto Pérez Pérez



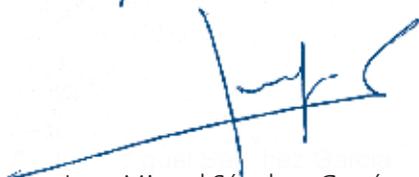
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Felipe Sivit Gañán



Justo Zambrana Pineda

Correos Group Annual Report 2008

This Annual Report is published every year in printed and electronic format. It is available at www.correos.es, together with previous Annual Reports and other corporate information.

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